Pantry Pride Annual Report -- 1981
America's Corporate Foundation; 1981; ProQuest Historical Annual Reports
pg. 0_1

a new era...
a new beginning

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OUR BUSINESS

At fiscal year end, the Company operated through its subsidiary, Pantry Pride Enterprises, Inc., a chain of 143 Pantry Pride supermarkets in Florida, southern Georgia and the Tidewater region of Virginia, and related food manufacturing and processing businesses which supply its supermarket operations as well as sell to third parties. The Company also operates certain non-food retail and wholesale operations.

ANNUAL MEETING

The annual meeting of stockholders will be held Friday, December 4, 1981, at 11 A.M., local time, at the Holiday Inn, 4900 Powerline Road, Ft. Lauderdale, Fla. Stockholders are cordially invited to attend. A notice of the meeting, a proxy statement and proxy form are included with this report to each stockholder of record as of October 15, 1981.

FORM 10-K

A copy of Form 10-K for the fiscal year ended August 1, 1981, which has been filed with the Securities and Exchange Commission, is available to stockholders at no charge upon written request to: Office of the Corporate Secretary, Pantry Pride, Inc., 6500 N. Andrews Avenue, Ft. Lauderdale, FL 33309.

COMMON STOCK TRADED

Pacific Stock Exchange

I am pleased to report to you on the progress of your Company through this annual report, the first to be issued under the new corporate name, Pantry Pride, Inc., and the first since the Company's emergence from Chapter XI of the Bankruptcy Act on July 6, 1981.

Traditionally, an annual report reviews the highlights of the previous fiscal year. In this instance, I believe stockholders would be more usefully informed by reviewing briefly certain key events that have transpired since the Company filed for arrangement proceedings under Chapter XI on October 2, 1978, and its future plans.

Shortly after the Chapter XI filing, new management assumed control of operations and, under the supervision of the Federal Bankruptcy Court, major unprofitable portions of the business were closed and substantial assets sold.

These actions were necessary for the survival of the Company in fulfillment of the basic purpose of a Chapter XI proceeding: to develop a plan of arrangement with creditors to permit the resolution of their claims within the resources available to the Company.

The plan of arrangement, approved by creditors and shareholders and confirmed by the bankruptcy court, provided for a substantial forgiveness of debt, certain present and future cash payments to creditors, and the exchange of a significant portion of debt for classes of preferred stock and common stock. All of the newly-issued stock is voting stock, and, in accordance with the plan of arrangement, this stock presently has 81% of the voting power, and the common stock previously outstanding has been reduced from 100% of total voting shares to 19%.

The plan provides for annual payments of $10 million for up to 20 years in order to make minimum cash payments to creditors required by January 15, 1985, and thereafter to redeem the liquidating preferred stock and, to the extent of funds available under the plan, other preferred stock issued to creditors in exchange for the pre-Chapter XI unsecured debt.

As a result of the debt restructuring arising out of the plan of arrangement, the Company has been restored to a positive net worth position.

To overcome certain technical difficulties posed by Pennsylvania law with respect to the dividend and redemption payments on the stock issued to creditors required under the plan, the Company, Pantry Pride, Inc., was incorporated in Delaware as the parent holding company whose business operations would be conducted by Pantry Pride Enterprises, Inc. (formerly Food Fair, Inc.)

To reach our present position as a revitalized and profitable Company after one of the largest and most complex Chapter XI reorganizations in bankruptcy annals, required successfully overcoming a number of major challenges. Development of a debt repayment plan was one of them. There were others. One was to stem the mounting losses from

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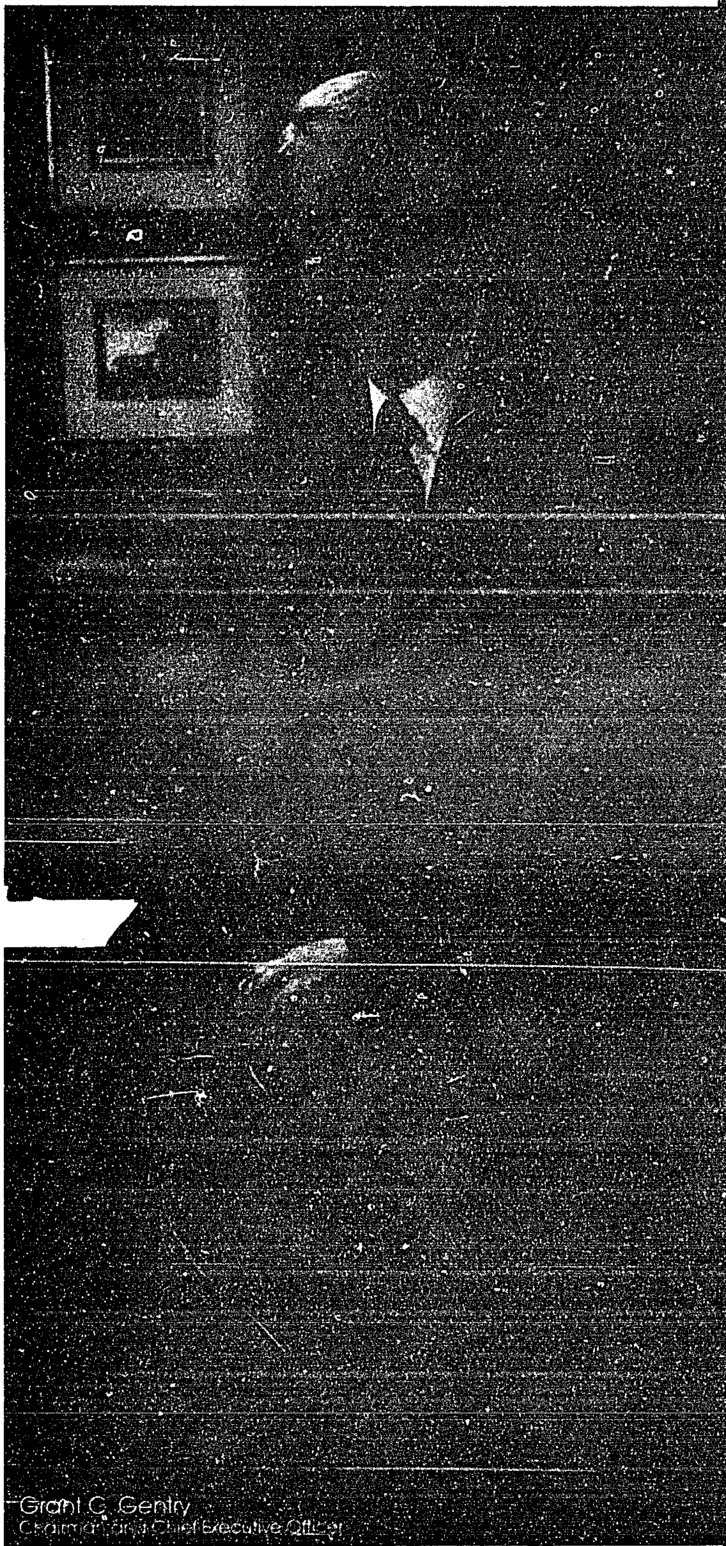
unprofitable operations. Prior to my joining the Company in January 1979, certain unprofitable supermarket operations had already been terminated in New York and Connecticut.

A survey of our remaining operations made it quite clear that for the Company to survive, it was necessary to eliminate all those operations which were a drain on resources and to operate only in those areas where we had been historically profitable. In carrying out that strategy, the Company terminated its supermarket operations in the Pennsylvania, New Jersey, and Tampa, Fla. areas, discontinued its J. M. Fields discount department store operations, closed its meat processing and certain produce operations and sold Washington Square Life Insurance Company. In addition, the Company was successful in disposing of substantially all of its interests in properties related to those operations and in other properties and assets not related to its ongoing business.

As of August 1, 1981, the end of the fiscal year, the Company has realized from such dispositions together with its share of the liquidation proceeds of Amterre Development Inc, aggregate proceeds, of approximately $182.2 million, net of related mortgages, costs and expenses. Of this amount, approximately $25 million have been used to fund a portion of the Company's capital improvement program and to pay certain secured indebtedness and other priority payments with the remaining proceeds applied to the Company's obligations under the plan of arrangement.

In mid-July 1981, the Company announced its intention to terminate supermarket operations in Maryland and Delaware which comprised its Baltimore Region. That area had been one where the Company had sustained significant losses because of particularly intense competition. With little prospect for an abatement of that level of price competition and no near-term prospect for a return to profitability, the decision was made to terminate the Baltimore Region supermarket operations. Subsequently, the leaseholds of most of the stores were sold or terminated following going-out-of-business inventory liquidation sales. It is anticipated that the remaining leasehold and fee properties will be sold or disposed of in due course. The sales were under the auspices of the bankruptcy court which had retained jurisdiction over the Baltimore Region assets, after confirmation of the plan of arrangement.

It should be noted that certain local unions instituted suit against the Company contending the store closings were in violation of alleged amendments to their collective bargaining agreements under which the Company purportedly agreed to keep the stores open in exchange for wage concessions. The Company has denied that a binding agreement was ever reached and has appealed a federal district court decision in which the court found that such an agreement had been entered into and directed that an arbitrator determine the Company's obligations


Grant C. Gentry
Chairman and Chief Executive Officer

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under the agreement and whether or not it was breached. Should the matter go to arbitration and an adverse decision is made, the resulting damages to the Company are not now determinable.

As a result of the steps taken to eliminate unprofitable and marginal operations during the Chapter XI reorganization and immediately thereafter with respect to Maryland and Delaware, the Company at fiscal year end was operating 143 Pantry Pride supermarkets, 116 of which were in Florida, seven in Georgia, 19 in Virginia and one in the Bahamas. This compares with 444 stores in operation on July 29, 1978, the end of the last fiscal year before the initiation of Chapter XI proceedings.

Within weeks after the Chapter XI filing, certain key executive officers and directors resigned their positions. Thus, there was an immediate need to recruit a new senior management team, elect qualified directors, and, in addition, to reestablish effective financial and accounting controls and reporting systems, and develop a plan of corporate growth after emergence from Chapter XI.

In all respects, I believe we have made excellent progress in fulfillment of these goals. The seven outside directors who serve on the board with me and Roger L. Galassini, president and chief operating officer of the Company, have all compiled distinguished records in industry and government. These directors, with brief biographies of each, appear on pages 10 and 11 of this report.

Serving with me as senior executives are a group of experienced senior managers. In addition to Mr. Galassini, they are Robert F. Longacre, executive vice president, southern operations; Robert C. Strauss, senior vice president, finance; Darrell V. Stiffler, Jr., senior vice president, industrial relations, and Beryl J. Weinstein, senior vice president, marketing.

The inadequacies of Company accounting records at the time of commencement of Chapter XI proceedings presented a critical problem that had to be immediately addressed. Correction of the problem was compounded by major changes in Company personnel at the time and business disruptions. The magnitude of the problem required much time and diligent effort to overcome. However, thanks to the efforts of many persons, our financial and accounting control systems are now operating efficiently. Management reports are timely and accurate and deadlines for filing of all financial statements are being met.

While the most urgent problems of Chapter XI proceedings, the recruitment of a senior management team and outside directors, and the implementation of a reliable financial-accounting system were all being addressed, a strategy for the Company's future was also being developed.

The most pressing need was to remodel and expand our supermarkets to make them more competitive with other supermarkets which had modern and larger facilities. In 1979, the Company instituted a capital improvements program, funded initially with $25 million from asset disposition proceeds. This program contemplated the expenditure of almost $200 million over a six-year period, to be funded primarily from continuing operations and external financing. Initially, the major emphasis was on refurbishing existing facilities.

In our merchandising and marketing strategy, all of our supermarkets have been aggressively carrying out an "everyday low price" theme. The program is designed to offer consumers the best overall value for their food dollars on a consistent basis and give assurance that they will achieve greater savings by purchasing all their food needs at Pantry Pride rather than by shopping randomly for "specials" at several different supermarkets.

This program has generated increased sales and improved operating profits after its introduction in each of our present operating areas. The program is supported by strong newspaper, television and radio advertising.

In the three years that have elapsed since the start of Chapter XI proceedings, your Company has undergone great change, the highlights of which I have reviewed with you in this letter.

The present supermarket operations of the Company—in Florida, Georgia, and Virginia—have been profitable for two consecutive fiscal years. We continue to implement a merchandising and marketing program that has demonstrated its success and we are well under way with our program to modernize, improve and expand our facilities. Today, our supermarket operations are principally in the Sunbelt, an area which is undergoing significant economic growth.

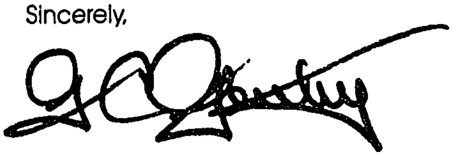
We could not have come so far without the understanding and support of our stockholders, our creditors, the bankruptcy court and the dedication, loyalty and hard work of the men and women of Pantry Pride.

We begin anew to build Pantry Pride on a foundation constructed slowly and surely over the last two and a half years, a foundation of seasoned, professional management, respected, capable, independent directors, and an employe team that has been tested and has prevailed under the most difficult circumstances.

We begin anew with a successful, unified merchandising program which has produced most gratifying sales increases, and sound, effective financial-accounting systems and controls.

We begin anew, stronger for the trials we have endured, with determination and vigor to build a strong, profitable Company, one whose performance will earn for it again a leadership role in the supermarket industry.

Sincerely,



Grant C. Gentry
Chairman and
Chief Executive Officer

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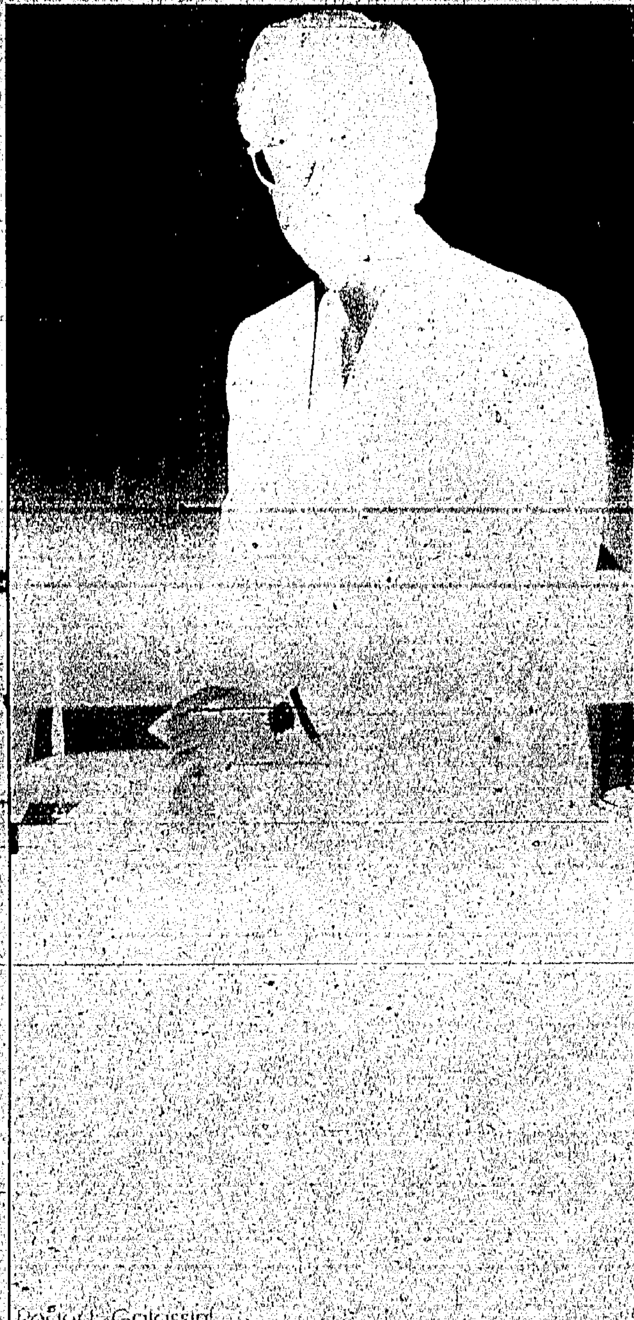

Roger E. Galassini

Supermarket sales of ongoing operations in Florida, Georgia, and Virginia increased by 17% from year-ago levels, substantially as the result of the implementation in all areas of an "everyday low price" merchandising program, strongly supported by television, radio and newspaper advertising. The program, initiated in Virginia two years ago with excellent results, was later phased into the Miami Region over a period of months. Before the program was introduced, the stores in the region were refurbished, product alignment revised, and through a series of meetings, personnel thoroughly briefed, with special emphasis on customer service.

The enthusiasm generated at new-store openings was achieved, and consumer response to the program was excellent. Our advertising message in support of the program guaranteed shoppers that Pantry Pride will save them more on their total food bill, or we will double the difference in cash. A similar merchandising/marketing strategy has been in place in the Jacksonville Region for some years. The advertising themes and sign work were coordinated with the other regions so that a unified program now covers all of our supermarkets.

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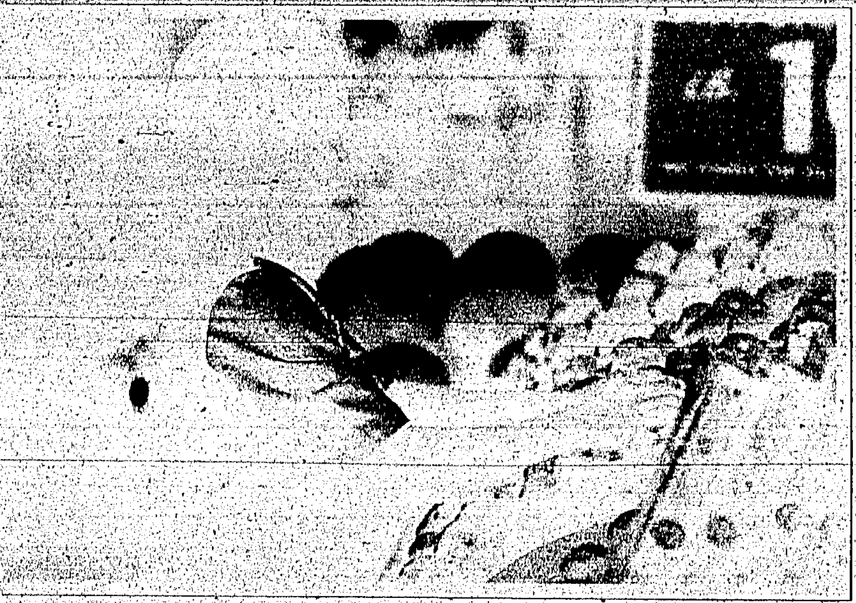
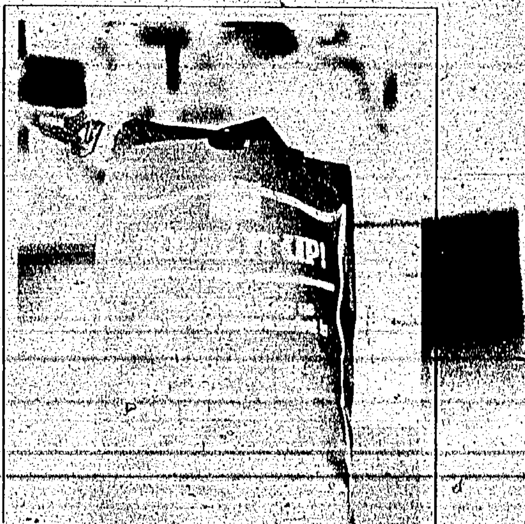
While the need to stimulate sales through aggressive merchandising was paramount, another major priority was the implementation of a capital improvements program.

The problems faced by the Company preceding the Chapter XI reorganization resulted in a serious deterioration of the physical condition of many stores, which required prompt remedial action. A six-year



capital improvement program is now well under way. This program contemplates expansion of some stores and significant improvement to all of them. In the 1981 fiscal year, 68 of our units underwent remodeling. In many instances, refurbished stores are outfitted with on-premises bakeries, expanded service appetizing departments with take-out hot foods and sandwiches, and plant boutiques.



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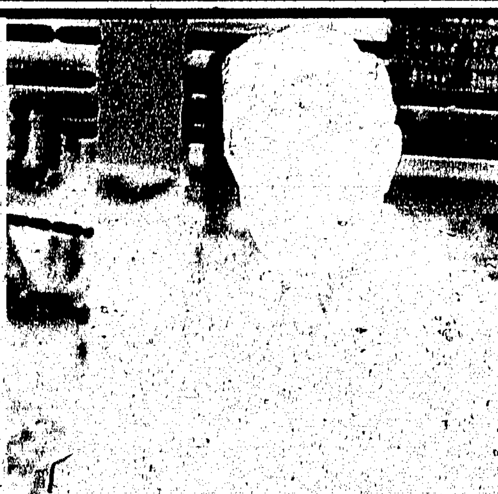

Generic items have been introduced into our stores and have been well received by consumers. Generics are non-branded, standard-quality items that provide a considerable savings over nationally-advertised products. They offer consumers an alternative to national and private-label brands, and are assuming an increasingly important role in our merchandising plans

Robert F. Longacre, executive vice president, southern operations. Mr. Longacre has more than 30 years of supermarket experience, having served as president and vice chairman of The Great Atlantic & Pacific Tea Company. Mr. Longacre gave up early retirement to join Pantry Pride as president of the Jacksonville Region in 1980

More than 100 plain-packaged food and household generic items are available in our stores

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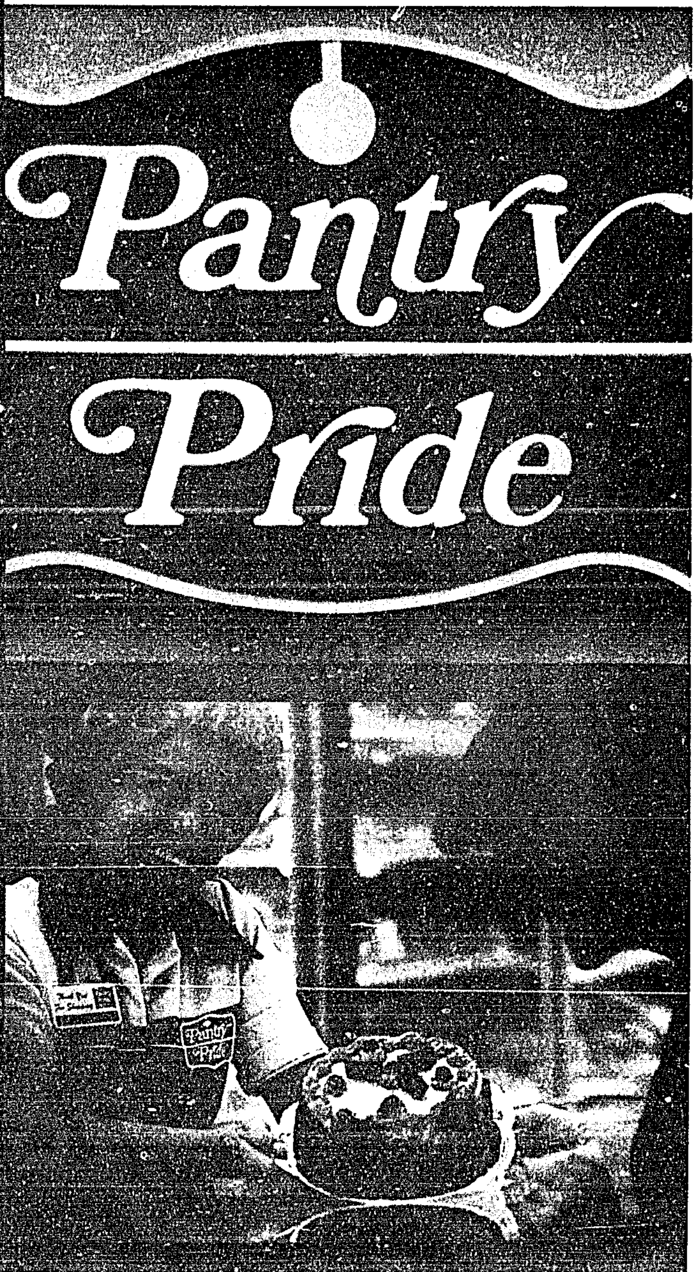


[illegible] premises bakeries which offer a variety of bread, rolls and pastries. The fresh-bakery departments are being included in many remodeled stores in conjunction with new or more extensive prepared foods-appetizing departments.

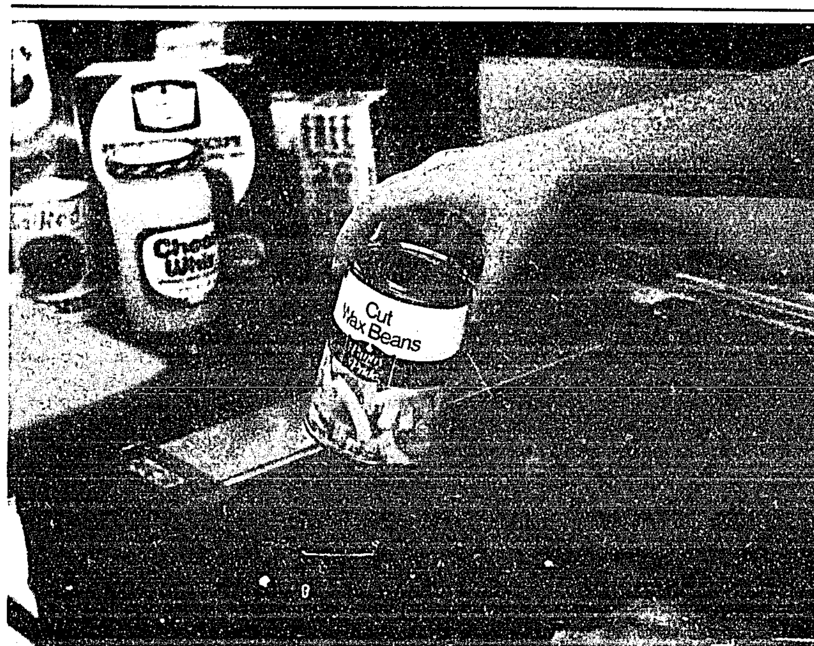
The Company is well underway with the installation of scanning systems in our Jacksonville Region stores. Optical scanning of merchandise at the checkout counter offers exciting opportunities for productivity-improvement and better customer service. All of the Jacksonville Region stores are expected to be scanning by the fall of 1982. Initial scanning installations are also scheduled to begin in several Miami Region stores by the end of the 1981 calendar year.

In the scanning process, a laser beam "reads" the Universal Product Code—the series of vertical lines on the product—which identifies the product and transmits the data to a computer where the price is retrieved from a memory bank and automatically recorded on the shopper's receipt. All of this is done within a split second.

In addition to the benefits to consumers—decreased checkout errors, faster service, itemized receipts—the system provides store management with on-line sales data and product movement in order that stock can be more efficiently managed and personnel more efficiently utilized.

In corporate organization changes, our 116 stores in Florida and 7 in southern Georgia were placed under the overall supervision of Robert F. Longacre, who was elected to the new post of executive vice president, southern operations. Mr. Longacre also continues as president of the Jacksonville Region. John J. Coppinger is president of the Miami Region.

The 19 stores in Virginia serving the Norfolk-Richmond area are now being serviced by a retailer-owned cooperative, Richfood, Inc., as the result of the closing of our Baltimore Region distribution center along with our stores in that area. Leonard Slider, a 35-year Company veteran, is president of the Virginia Region.



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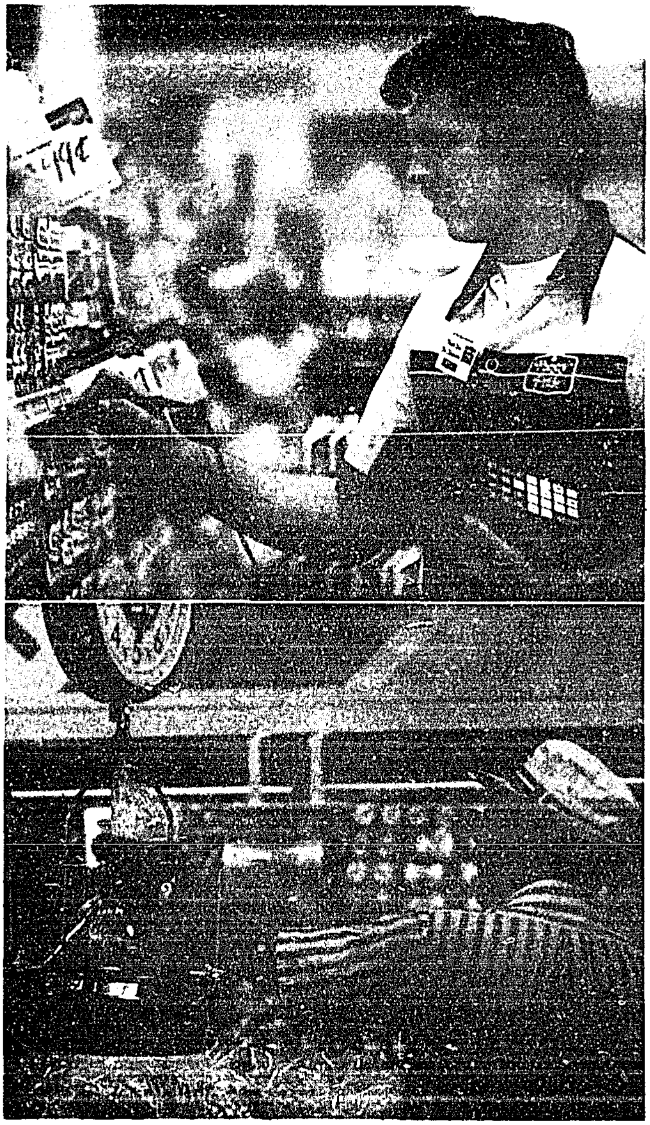
A six-year major capital improvements program is under way. Major emphasis is on the remodeling and enlarging of existing supermarkets. Allocations have also been made for the purchase of new tractors and trailers, fleet maintenance facilities, materials-handling equipment and machinery for our manufacturing plants.

Store ordering has been improved with a new scanning wand. To order an item, the wand is passed over the shelf label code, represented by vertical black bars. Each pass of the wand signifies to the hand-held recorder the ordering of one "unit," whether it be a case, box, etc. The new system eliminates the need for clerks to write orders by hand and then key the information into a recorder. The recorder is hooked up to a transmitting device and the order is sent automatically.



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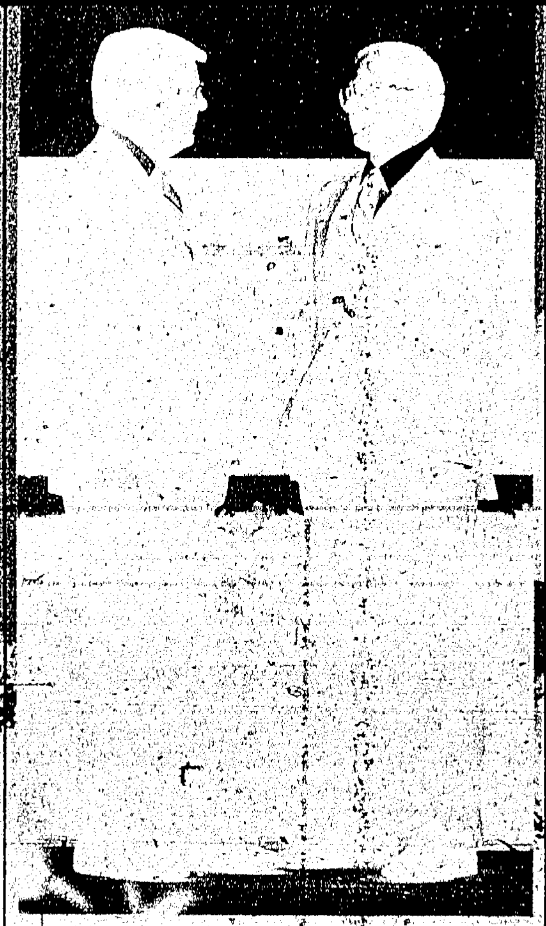

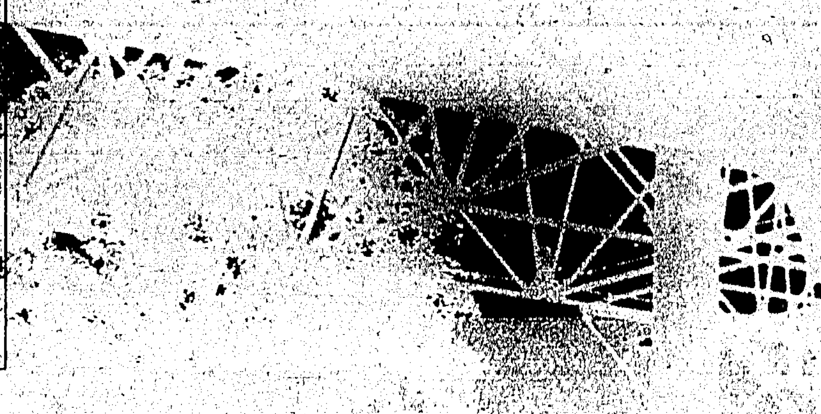

Darrell V. Stiffler, Jr., senior vice president, industrial relations, left, and Robert C. Strauss, senior vice president, finance, are members of the senior management staff. Mr. Stiffler has 30 years of food retailing experience in operations management, personnel and labor relations. Mr. Strauss has held the posts of vice president, financial planning and analysis, and later vice president, corporate planning. He joined the Company in 1979 after serving as a management consultant with Touche Ross & Co.

Television advertising plays a prominent role in projecting Pantry Pride's "Everyday low price" image to consumers.

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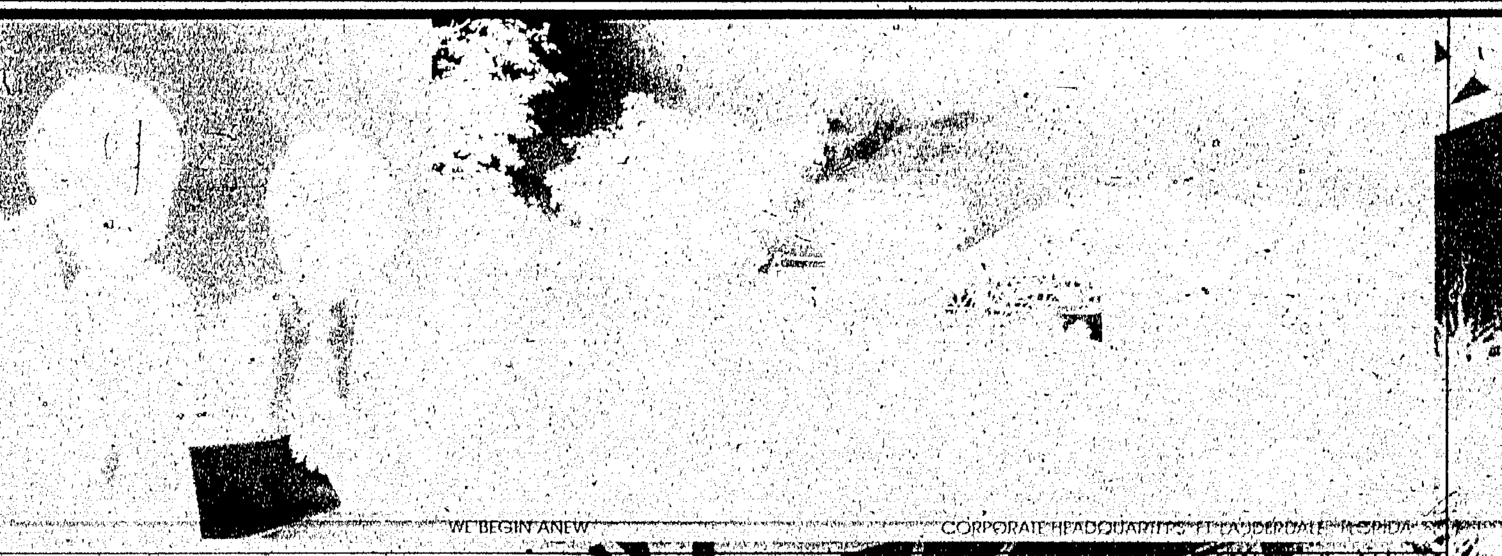

Beryl J. Weinstein, senior vice president, marketing, right, reviews sales plans with John W. Ruffin, Jr., vice president, general merchandise.

FINANCING

The Company has more than adequate cash to meet its currently projected operating needs in fiscal 1982. However, the Company is in the final stages of completing negotiations for the establishment of a line of credit. The Company does not contemplate an immediate need for capital sources, but believes arrangements toward this end are appropriate for the Company's post-Chapter XI development.

ENERGY MANAGEMENT

Conservation measures are well under way in a concerted effort to reduce energy usage at all Company facilities. Monitoring devices installed in a number of South Florida stores to limit excess usage of energy and still insure necessary refrigeration and lighting have produced gratifying savings. These controls are scheduled for installation in additional stores.

Plastic strip curtains in front of open refrigerated cases have recently been tested in several stores, and expansion of this experiment in energy-saving is under review.

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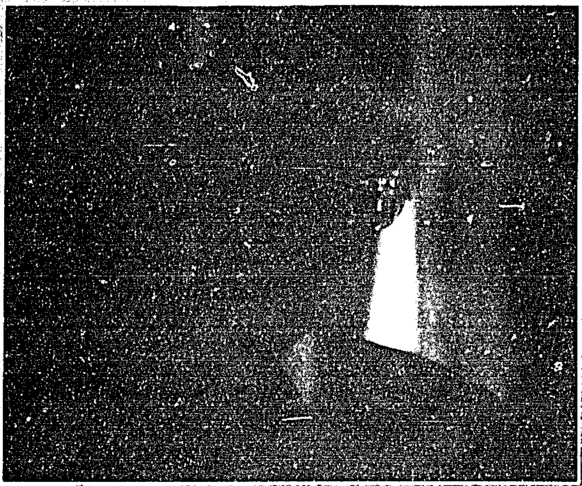
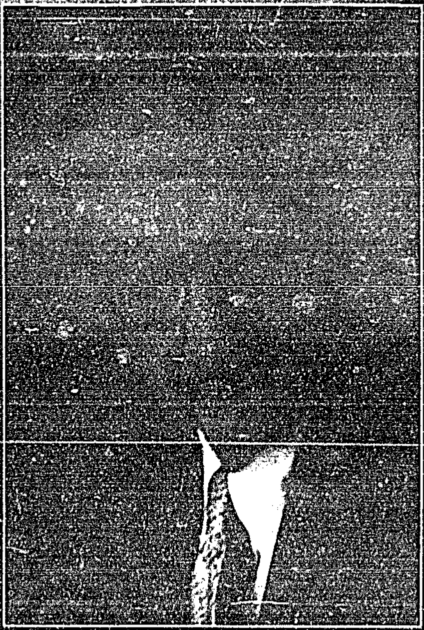


ROBERT B. ANDERSON
Mr. Anderson, president of Robert B. Anderson & Co., Ltd., a consulting firm, is a former Secretary of the Treasury and Secretary of the Navy. He is a director of Pan American World Airways, Inc., Intercontinental Trailsea Corp, NRX Technologies, Inc., and Energy Clinic Corp.

JEWEL S. LAFONTANT
Mrs. Lafontant is senior member in the law firm of Lafontant, [illegible] A former deputy solicitor general of the U.S. [illegible] The Equitable Life Assurance Society of the U.S.



HOWARD M. PACKARD
Mr. Packard is the retired chairman and president of S. C. Johnson and Son, Inc. Mr. Packard is a director of the Kemper Insurance Group, Universal Foods Corp and Heritage Banks of Milwaukee and Racine, Wis.

ROGER L. GALASSINI
Mr. Galassini joined the Company in February 1979 as vice president and general counsel. A year later he was elected executive vice president and chief administrative officer and then vice chairman. Previously he was a vice president of The Great Atlantic & Pacific Tea Company where he had responsibility for public affairs and later administrative services. Earlier he was with Jewel Companies, Inc. as corporate counsel, assistant general counsel and corporate secretary.

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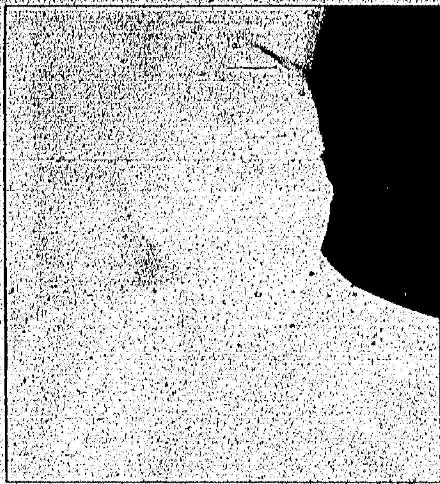
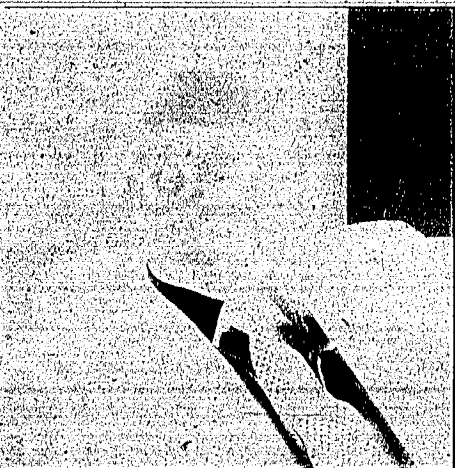
JOSEPH L. CASTLE
Mr. Castle is the principal of Joseph L. Castle Associates, a business-financial consultancy. He serves as president of Castle Energy Corp., a company engaged in drilling for oil and gas. He is also a director of Reading Company, Horn and Hardart Baking Company, Comcast Corp., and Imperial Clevite Corp.

JOHN M. FOX
Mr. Fox, chairman of SCA Services, Inc., a chemical waste disposal company, is the retired chairman and chief executive of H. P. Hood, Inc., and earlier served in similar posts at United Fruit Company. He is one of the founders and former president of Minute Maid Corporation. An agribusiness consultant, he is a director of IBM, The Harvey Group and International Signal and Control, Inc. and a trustee of Eastern Gas and Fuel Associates.



GRANT C. GENTRY
Mr. Gentry joined the Company as chairman and chief executive officer in January 1979. He had served as president and a director of The Great Atlantic & Pacific Tea Company and previously was executive vice president and a director of Jewel Companies, Inc.



JAMES J. NEEDHAM
Mr. Needham has served as chairman and chief executive of the New York Stock Exchange and as a Commissioner of the Securities and Exchange Commission. He is a director of NVF Company, Sharon Steel Corporation, American Savings and Loan Association, Caesars World, Inc., Caesars New Jersey, Inc., and Standard Register Company.

DUANE PETERS
Mr. Peters is the retired executive vice president and general manager and director of H. E. Butt Grocery Company and former executive vice president and general manager of Ralphs Grocery Company. He is a director of Hannaford Brothers Company and is the former chairman of the Western Association of Food Chains.

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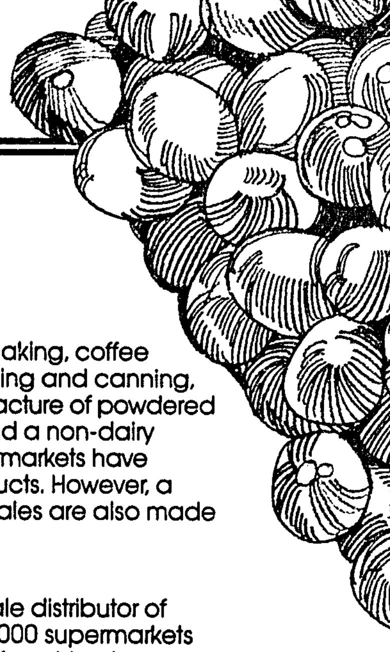

MANUFACTURING

The Company operates facilities for baking, coffee roasting and canning, soft drinks bottling and canning, the packaging of tea and the manufacture of powdered drink mixes, including iced tea mix and a non-dairy cream product. The Company's supermarkets have been major customers for these products. However, a significant portion of manufacturing sales are also made to third parties.

FOOTWEAR SERVICES

This subsidiary is principally a wholesale distributor of popularly-priced footwear to some 4,000 supermarkets and drug stores through a network of franchised distributors and individual sales representatives. It also operates 13 retail shoe outlets in the eastern part of the country.

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1981 Financial Review

PANTRY PRIDE 1981 ANNUAL REPORT
'WE BEGIN ANEW'

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Pantry Pride, Inc. and Subsidiaries
Five Year Selected Financial Data

(dollars in thousands except per share data)	August 1, 1981	August 2, 1980 (a)	July 28, 1979	July 29, 1978	July 30, 1977
Operating results					
Sales	$1,225,263	$1,124,067	$1,487,270	$2,414,665	$2,145,125
Gross profit	261,461	230,679	247,439	436,023	410,896
Selling, general and administrative expenses	269,861	230,908	326,657	580,897	477,600
Depreciation and amortization—owned property	8,014	7,103	14,568	20,273	19,676
Amortization of capital leases	5,237	5,874	12,485	798	
Interest, net	(834)	4,469	16,506	20,758	14,603
Provision (benefit) for income taxes		2,043		(8,776)	(757)
Net earnings (loss) from continuing operations	(10,614)	11,182	(146,538)	(34,711)	15,014
Net earnings (loss) from discontinued operations		2,550	(58,978)	(19,840)	(11,768)
Extraordinary items	162,588	8,841			
Cumulative effect of accounting changes	(1,820)		(5,563)	(37,672)	4,175
Net earnings (loss)	150,154	22,573	(211,079)	(92,223)	7,421
Financial position					
Total assets	223,169	365,982	389,731	520,292	507,567
Working capital	39,837	74,294	47,964	(41,604)	122,884
Property and equipment, net	77,044	101,022	108,595	172,770	172,029
Obligations under capital leases, net of current portion	26,877	48,827	60,839	16,265	
Inventories	66,194	79,196	85,602	267,063	261,439
Long-term debt	49,296	8,723	12,771	58,147	173,123
Redeemable preferred stocks	32,611	1,619	1,619	1,627	1,747
Current ratio	1.48	2.23	1.54	.88	1.67
Stockholders					
Stockholders' equity	11,642	(141,809)	(164,382)	84,648	138,709
Stockholders' equity per share of common stock	1.22	(19.27)	(22.34)	11.50	18.85
Number of common shares issued	9,556	7,358	7,358	7,358	7,358
Common stock price range—high—low	6—2¼	4¾—1⅜	5⅛—1	7⅜—4⅝	7⅜—4½

(a) 53 weeks

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RESULTS OF OPERATIONS

Management believes that comparisons from 1978 to 1981 of the results of operations have been significantly impacted by the Company's filing of petitions under Chapter XI of the Bankruptcy Act during 1979, various actions by the Company as a result thereof and the confirmation of a Plan of Arrangement which substantially restructured the Company's obligations to unsecured creditors which existed at the time of the filing.

1981 COMPARED TO 1980

Sales for 1981 were $1.22 billion compared to $1.12 billion in 1980, an increase of 9.0%. This increase was primarily due to the effects of the Company's marketing strategies, which included the upgrading of many stores, and inflation. During the current fiscal year, the Company ceased its operations in the Baltimore Region. Excluding the sales of this region from the two years being compared, sales in 1981 increased by 16.7%.

Cost of sales as a percentage to sales was 78.7% in 1981 compared to 79.5% in 1980. Removing the Baltimore Region from the calculation, cost of sales was 79.0% in 1981 compared to 80.4% in 1980. The improvement is largely due to the Company's continuing effort to take advantage of manufacturers' discounts.

Selling, general and administrative expenses were 22.0% of sales compared to 20.5% in the prior year. The primary reasons for the increase are the effects of one-time administrative expenses, inflation and a 53 week year in 1980 without corresponding increase in expenses.

In 1980, several major items were classified as unusual due to their significance to the results of that year. These items resulted in an increase in earnings of $10.7 million. The items primarily related to bankruptcy items and a reduction in the provision for disposal of discontinued properties. In 1981 similar items, together with a charge to earnings of $29.6 million to provide for losses on the closing of the Baltimore Region and the sale of its related assets, amounted to a net charge to operations of $12.2 million.

In 1981, an extraordinary item of $162.6 million was recognized which represented forgiveness of debt arising from the restructuring of the Company's debt in accordance with the Plan of Arrangement.

Net earnings for 1981 amounted to $150.1 million compared to $22.5 million in 1980. Removing the extraordinary and unusual items, earnings were $1.6 million in 1981 compared to $2.5 million in 1980 which include losses of $6.3 million in 1981 and $2.5 million in 1980 from the Baltimore Region.

1980 COMPARED TO 1979

Sales for 1980 were $1.12 billion compared with $1.49 billion in 1979, a decline of 24.4%. This decrease was primarily the result of closing 222 supermarkets during 1979 in the New York, Philadelphia, Harrisburg and Tampa regions and closing the meat operations and offset partially by inflationary increases in product prices and the impact of the 53rd week in 1980. Excluding the 1979 sales of closed supermarket operations, sales in 1980 increased 10.2%.

Cost of sales as a percentage of sales was 79.5% in 1980 compared with 81.8% in 1979. This improvement was due to improvements in the Company's ability to maintain sufficient stock and make advance purchases to take advantage of manufacturers' discounts.

Operating and administrative expenses were 20.5% compared with 22.0% in the prior year. This reduction of percentage of expenses to sales was due to a reduction in overhead costs and the effect of the 53rd week on sales and expenses.

In 1979, several major items were classified as unusual due to their significance to the results of that year. These items amounted to a net charge of $55.8 million and were primarily bankruptcy administration costs; provision for self-insurance; and allowance for disposal of properties and termination expenses. In 1980, these same items together with other items which are also significant to the understanding of the 1980 results amounted to a net credit of $10.7 million. The additional unusual items in 1980 included interest on tax refund; a reduction in the allowance for estimated losses on net assets of closed supermarket operations held for disposition; and other items.

Net interest expense was $4.5 million in 1980 compared with $16.5 million the prior year as interest on substantially all unsecured short and long-term debt ceased to accrue as a result of the Chapter XI filing in 1979. Accordingly, operations in 1980 have not been charged with the interest expense on these obligations.

In 1980, an extraordinary item of $8.8 million was recognized resulting from the utilization of net operating loss carryforwards as a reduction of income tax expense.

Net income in 1980 was $22.5 million compared with a loss of $211.1 million in 1979. The loss in 1979 included $63.6 million for the results of operations of supermarkets closed during 1979; $59.0 million from discontinued J. M. Fields operations; $55.8 million for unusual items; and $23.8 million as a provision for

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creditors' claims. Except for unusual charges with respect to self-insurance, charges to income of this nature which contributed significantly to the loss in 1979 did not affect operations in 1980.

1979 COMPARED TO 1978

During this period and pursuant to a strategy for continuing to operate only in those areas, both business and geographic, where it had been historically profitable, the Company terminated its supermarket operations in the Pennsylvania, New Jersey, New York, Connecticut, and Tampa, Florida areas; discontinued its J. M. Fields discount department store operations; and closed its meat processing and certain produce operations. The Company has substantially completed disposition of its interest in properties related to those operations and in any other properties and assets not essential to its ongoing business.

As a result of the filing of the aforementioned Chapter XI petitions, interest expense ceased to accrue with respect to substantially all unsecured indebtedness and interest expense decreased from $39.0 million in fiscal 1978 to $16.5 million in 1979.

Unusual items for 1979 consist of disposal of properties and termination expenses, including net loss from closed supermarket operations after February 10, 1979 of approximately $35.6 million; adjustment for self-insurance, a significant portion of which applies to prior years, of approximately $14.5 million; and bankruptcy administration costs, less interest income on restricted cash, of approximately $5.6 million. The self-insurance provision is presented as an unusual item because an adjustment is required for claims incurred in prior years, and present management believes that reasonable estimates could have been made for such claims in the years in which they were incurred and appropriate claims reserves recorded.

In 1979, the Company changed certain methods of accounting in order to be consistent with industry practices by excluding warehouse costs in the determination of supermarket inventories and discontinuing the amortization of payroll taxes. In addition, the Company retroactively changed its method of accounting for leases to comply with the provisions of Statement of Financial Accounting Standards No. 13.

The net loss increased to approximately $211.1 million, due principally to the loss from J. M. Fields of approximately $59.0 million, continuing supermarket operations (including loss from closed supermarkets and related operations) of approximately $63.6 million, unusual items referred to above of approximately $55.6 million and the provision for creditors' claims included in expenses and other income of approximately $23.8 million.

LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity and capital structure have significantly changed as a result of the Plan of Arrangement. Liabilities deferred pursuant to the Plan of Arrangement were extinguished by the issuance of common and redeemable preferred stock, cash payments of a portion of the liability and a credit to retained earnings from the restructuring of these liabilities. Accordingly, stockholders' equity improved from a deficit of approximately $142 million in 1980 to a surplus of approximately $12 million in 1981 excluding redeemable preferred stocks of $32 million.

Working capital decreased primarily from the closing of operations in the Baltimore Region whereby all inventories and other assets net of related liabilities of Baltimore Region were classified as net assets held for disposition. The Company's working capital in future years will be greatly impacted by its commitment to improving operations through a significant capital expenditure program. Also the Company will continue to devote attention to working capital utilization programs such as obtaining normal credit terms from suppliers and increasing inventory turns. The Plan of Arrangement will additionally impact working capital if "excess cash" is generated. A portion of "excess cash", as defined by the Plan, would be distributable to certain Chapter XI creditors.

Fixed asset additions are being funded through a Capital Improvements Program which began in October, 1979. This program was expected to expend $196.6 million (including Baltimore) for the refurbishing of existing facilities and the acquisition of new facilities. At the current time, the Company has committed or expended approximately $66.1 million which has been used primarily for the rehabilitation of existing facilities. This program will be financed through continuing operations and external financings.

The Company does not presently plan to borrow additional long-term funds, sell securities, or enter into any material off-balance sheet financing arrangements. Short-term borrowings will continue to be used as an external financial resource.

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IMPACT OF INFLATION

The high rate of inflation has had an impact on the Company's reported earnings, stockholders' equity and other financial information which are not measured by traditional accounting methods. Refer to pages 33 to 34 entitled "Supplementary Information on Changing Prices" which present the Financial Accounting Standards Board's method of estimating and evaluating the effects of inflation as published in its Statement No. 33.

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Pantry Pride, Inc. and Subsidiaries
Consolidated Balance Sheets

(dollars in thousands)	August 1, 1981	August 2, 1980
Assets:		
Current Assets:		
Cash and certificates of deposit	$ 46,389	$ 21,730
Reimbursement due from restricted cash		9,568
Accounts receivable, net	8,296	13,685
Refundable income taxes		6,875
Inventories	66,194	79,196
Prepaid and other	2,742	3,626
Total current assets	123,621	134,680
Restricted cash		102,476
Net assets of closed Baltimore Region held for disposition	5,951	
Other net assets held for disposition	3,261	11,342
Property and equipment, net	77,044	101,022
Other assets	13,292	16,462
	$223,169	$365,982
Liabilities, Redeemable Preferred Stocks, Common Stock and Other Elements of Stockholders' Equity:		
Current Liabilities:		
Notes payable	$ 1,000	$
Accounts payable	24,657	23,209
Accrued salaries and expenses	39,136	25,721
Current portion of long-term debt	15,312	5,282
Current portion of capitalized lease obligations	3,679	5,642
Total current liabilities	83,784	59,854
Liabilities deferred pursuant to proceedings under Chapter XI		385,769
Long-term debt	49,296	8,723
Capitalized lease obligations	26,877	48,827
Pension liability of Baltimore Region	12,959	
Other liabilities	2,843	532
Deferred income	3,157	2,467
Commitments and Contingencies		
Redeemable preferred stocks	32,611	1,619
Common stock, par value $0.01, 30,000,000 shares authorized, 9,555,989 shares issued in 1981, 7,557,378 shares in 1980	96	76
Capital in excess of par	60,662	57,385
Deficit	(49,116)	(199,270)
	$223,169	$365,982

See notes to consolidated financial statements.

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Pantry Pride, Inc. and Subsidiaries
Consolidated Statements of Operations

(dollars in thousands except per share data)	52 Weeks Ended August 1, 1981	53 Weeks Ended August 2, 1980	52 Weeks Ended July 28, 1979
Revenues:			
Sales	$1,225,263	$1,124,067	$1,487,270
Gain on sale of property, net	3,464	744	
Other income	5,722	6,479	4,973
	1,234,449	1,131,290	1,492,243
Costs and expenses:			
Cost of goods sold	963,802	893,388	1,216,027
Selling, operating and administrative	269,861	230,908	326,657
Interest, net	(834)	4,469	16,506
Provision for creditors' claims			23,804
	1,232,829	1,128,765	1,582,994
Earnings (loss) from continuing operations before unusual items and income taxes	1,620	2,525	(90,751)
Unusual items	(12,234)	10,700	(55,787)
Earnings (loss) before income taxes	(10,614)	13,225	(146,538)
Provision in lieu of income taxes		(2,043)	
Earnings (loss) from continuing operations	(10,614)	11,182	(146,538)
Earnings (loss) from discontinued operations		2,550	(58,978)
Earnings (loss) before extraordinary items and cumulative effect of accounting changes	(10,614)	13,732	(205,516)
Extraordinary items:			
Utilization of net operating loss carryforward		8,841	
Gain from debt restructuring	162,588		
Earnings (loss) before cumulative effect of accounting changes	151,974	22,573	(205,516)
Cumulative effect of accounting changes	(1,820)		(5,563)
Net earnings (loss)	$ 150,154	$ 22,573	$ (211,079)
Earnings (loss) per common and common equivalent share:			
Continuing operations	$(1.39)	$1.51	$(19.92)
Discontinued operations		.35	(8.02)
Extraordinary items	21.35	1.20	
Accounting changes	(.24)		(.76)
	$19.72	$3.06	$(28.70)
Earnings (loss) per common share, fully diluted:			
Continuing operations	$(1.32)		
Extraordinary item	20.30		
Accounting change	(.23)		
	$18.75		

See notes to consolidated financial statements.

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Pantry Pride, Inc. and Subsidiaries
Consolidated Statement of Common Stock and Other Elements of Stockholders' Equity

(dollars in thousands)	Common Stock Par $0.01	Common Stock Par $1.00	Capital in Excess of Par	Treasury Stock	Deficit
Balance, July 29, 1978, as previously reported	$	$ 7,557	$51,239	$(1,337)	$(10,747)
Effect of merger and change in par value, $1.00 to $0.01	76	(7,557)	6,144	1,337	
Balance, July 29, 1978, as restated	76		57,383		(10,747)
Preferred stock redemption			2		
Net loss					(211,079)
Preferred dividends paid					(17)
Balance, July 28, 1979	76		57,385		(221,843)
Net earnings					22,573
Balance, August 2, 1980	76		57,385		(199,270)
Debt restructure	20		3,277		
Net earnings					150,154
Balance, August 1, 1981	$ 96	$	$60,662	$	$(49,116)

See notes to consolidated financial statements.

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Consolidated Statements of Changes in Financial Position

(dollars in thousands)	52 Weeks Ended August 1, 1981	53 Weeks Ended August 2, 1980	52 Weeks Ended July 28, 1979
Source of Funds:			
Operations:			
Earnings (loss) from continuing operations	$ (10,614)	$ 11,182	$(146,538)
Charges (credits) not affecting working capital:			
Depreciation and amortization	13,251	12,977	24,071
(Reduction in) provision for estimated loss on net assets held for disposition	24,500	(6,000)	33,128
Provision for creditors' claims and adjustment for self-insurance		4,100	38,327
Cumulative effect of accounting changes	(1,820)		(5,563)
Deferred income taxes and other		(1,771)	8,891
Excess of obligations over related assets of disposed capitalized leases			(37,628)
Funds from (used in) continuing operations, exclusive of extraordinary items	25,317	20,488	(85,312)
Funds used in discontinued operations, exclusive of extraordinary items		(2,450)	(36,141)
Extraordinary items:			
Utilization of net operating loss carryforward		8,841	
Gain from debt restructuring	162,588		
Total funds provided from (used in) operations	187,905	26,879	(121,453)
Decrease (increase) in restricted cash, investments and other assets	105,646	(57,687)	(60,905)
Future Plan of Arrangement payments	49,485		
Preferred stock issued	30,992		
Increase in pension and other liabilities	15,960	2,999	
Proceeds from other net assets held for disposition	17,496	122,128	
Sales of property and equipment, net	4,095	6,644	2,030
Additional long-term borrowings	3,535		
Common stock issued	3,297		
Deferral of liabilities pursuant to proceedings under Chapter XI			340,159
Carrying value of assets disposed			179,517
Other, net			9,404
Decrease (increase) in working capital	34,989	(26,862)	(104,914)
	$453,400	$ 74,101	$243,838
Application of Funds:			
Purchase of property and equipment	$ 24,476	$ 18,610	$ 11,981
Reduction in capitalized lease obligations	21,950	12,012	
Maturities of long-term debt	12,447	4,048	15,096
Disposition losses net of gains, and loss from operations after February 10, 1979	8,758	32,518	78,595
Reclassification of working capital to net assets held for disposition			138,166
Reduction in liabilities deferred pursuant to proceedings under Chapter XI	385,769	6,913	
	$453,400	$ 74,101	$243,838

See notes to consolidated financial statements.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fiscal year
The Company's fiscal year ends on the Saturday nearest to July 31. The years ended August 1, 1981 and July 28, 1979 consisted of 52 weeks, while the year ended August 2, 1980 consisted of 53 weeks.

Principles of consolidation
The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated. In 1980, Washington Square Life Insurance Company which was sold during the current fiscal year, was included on an equity basis.

Debt restructuring
In compliance with the Financial Accounting Standards Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," the Company has accounted for the restructuring as follows: (a) the gain from debt restructuring is classified as an extraordinary item, (b) the continuing long-term liability is at face amount and is non-interest bearing and (c) the preferred stock was valued at estimated fair value at date of issue and will be accreted to its liquidating value over the next twenty years.

Inventories
Inventories are stated at the lower of cost or market, with cost being determined as follows: inventories in stores, principally the retail inventory method; inventories in warehouses, principally average cost; inventories at manufacturing facilities, first in—first out method.

Property and equipment
Property and equipment is recorded at cost or, in the case of capitalized leases, at the present value of the future lease payments. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of the assets and in the case of leasehold improvements, the shorter of the term of the lease or the estimated useful life of the improvements.

Accounts receivable
Accounts receivable are stated net of allowance for doubtful accounts of $2,473 and $3,176 in 1981 and 1980, respectively.

Self-insurance
Liabilities for self-insurance are provided for workers compensation, automobile and general liability, and health and dental liabilities not covered by insurance. The estimated liability is based upon a review by the Company and an independent insurance broker of claims filed and for claims incurred but not reported.

Store closing expense
Losses resulting from store closings are provided for in the period when the decision is made to close along with estimated losses on related asset dispositions.

Retirement plans
Pension expense charged to operations includes normal cost and amortization of prior service costs over a 40 year period. Pension costs are funded as accrued, except that a waiver from the Internal Revenue Service had been obtained whereby 1978 costs of certain pension plans will be funded over a 15 year period.

Deferred income
Deferred income represents the unrecognized gains resulting from the renegotiation of certain lease obligations which are amortized over the terms of the renegotiated leases.

Reclassification
Certain reclassifications have been made to conform to the 1981 presentation.

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TERMINATION OF CHAPTER XI PROCEEDINGS

On July 6, 1981 the Bankruptcy Court confirmed the Company's Amended Consolidated Plan of Arrangement, (the "Plan"), dated December 15, 1980, and the Company was discharged from its Chapter XI proceedings. As an integral part of the Plan, Pantry Pride Enterprises, Inc. (formerly Food Fair, Inc.) merged into a subsidiary of Pantry Pride, Inc. As a result of the merger there was an exchange of capital stock of the two companies, retroactively reflected in the consolidated financial statements as shown in the Consolidated Statement of Common Stock and Other Elements of Stockholders' Equity. In addition, the restructure of pre-Chapter XI liabilities was also accomplished on the same date.

This restructuring converted a significant amount of pre-Chapter XI debt to redeemable preferred stocks and common stock and resulted in approximately $162 million in debt forgiveness (as shown below) and has returned the Company to a positive net worth.

		1981
Liabilities deferred pursuant to proceedings under Chapter XI..		$385,769
Cash paid at or before confirmation	$130,071	
Continuing liability	49,485	
Accrued expenses	9,336	
Common stock	3,297	
Redeemable preferred stocks	30,992	(223,181)
Gain from debt restructure		$162,588

The accrued expenses noted above, include direct costs and other expenses which are expected to be incurred to settle disputed claims and related liabilities which survived the termination of bankruptcy proceedings on July 6, 1981.

The Company has satisfactorily resolved a number of material uncertainties relating to its ability to operate as a going concern. Specifically, during the latter stages of its Chapter XI proceedings or immediately thereafter, the Company terminated the Chapter XI proceedings, satisfactorily resolved certain pending shareholder and pension litigation and a federal grand jury investigation, achieved profitability, achieved and sustained normal trade credit terms with suppliers, renewed its Perishable Agricultural Commodities Act license and believes the pending SEC investigation will be concluded without a material impact. The satisfactory resolution of these material uncertainties enabled its independent certified public accountants to express an opinion on the Company's results of operations and changes in financial position for the two years ended August 1, 1981.

PLAN OF ARRANGEMENT

In accordance with the Plan, the Company has paid or is obligated to pay its creditors cash and stock in the Company in a manner which is summarized as follows:

Disposition Proceeds (net amounts realized from sales of assets sold or related to operations discontinued or terminated before confirmation).

$10,000 annually (Fixed Payments, in semi-annual installments of $5,000) for up to 20 years starting with Confirmation and continuing through a period (the Payment Period) of 16 years beginning no later than January 15, 1985 after cash payments (see Note entitled "Long-Term Debt") of 45% of claims have been made to Class 1 and Class 2 creditors and 5% of claims have been made to Class 3 creditors, plus $8,500 (in addition to the $5,000 semi-annual payments) in the sixteenth year of the Payment Period.

Contingent Payments of 50% of Excess Cash Flow begins after Confirmation and continues through the Payment Period. Excess Cash Flow is essentially the Company's funds derived from operations and other sources in excess of those committed to its Capital Improvements Program, payments under the Plan and 3% of sales which is deemed to be the current operating cash requirement of the Company. A Contingent Payment of up to the remaining 50% of Excess Cash Flow is also required in years 7 through 9 of the Payment Period to the extent necessary to pay Class 1 creditors holding Liquidating Preferred, Series A stock distributed under the Plan to an amount to bring the cumulative total paid with respect to Class 1 claims to 80% thereof.

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The cash to be paid out by the Company will be applied during the 16 year Payment Period to retirement of and dividends on the following Redeemable Preferred Stock with total liquidation value of approximately $154,446. The difference between the liquidating value and the fair value of $30,992 as shown below will be accreted to the applicable preferred stock over the next twenty years by charges to capital in excess of par and then, to the extent necessary, retained earnings.

	1981
Series A Liquidating preferred, authorized 4,380,000 shares; $1.00 par value; issued 3,997,740 shares; entitled to $10 per share or $39,977 in liquidation, valued at date of issue at $3.37 per share. The series is entitled to certain cash dividends to the extent of available cash to reach 80% of the original claim amount	$13,493
Series B Liquidating preferred, authorized 4,700,000 shares; $1.00 par value; issued 4,462,260 shares; entitled to $10 per share or $44,622 in liquidation, valued at date of issue at $1.82 per share	8,132
Series C Liquidating preferred, authorized 540,000 shares; $1.00 par value; issued 540,000 shares; entitled to $10 per share or $5,400 in liquidation, valued at date of issue at $2.34 per share	1,263
Class A $1.00 cumulative convertible preferred; $0.40 par value; authorized 5,100,000 shares; issued 4,470,767 shares; entitled to $10 per share or $44,708 in liquidation, valued at date of issue at $1.47 per share	6,593
Class B $0.686 cumulative preferred; $0.40 par value; authorized 2,100,000 shares; issued 1,973,928 shares; entitled to $10 per share or $19,739 in liquidation, valued at date of issue at $0.77 per share	1,511
Total redeemable preferred stock issued in compliance with the Plan	30,992
1951 Series $4.20 cumulative preferred; $1.00 par value; 16,190 shares authorized and issued. Not included in fixed payments noted above	1,619
	$32,611

In accordance with Delaware corporate law the $32,611 balance is classified as follows: $15,461 is the aggregate par value and $17,150 is the aggregate capital in excess of par.

All Class A and Class B Preferred Stock outstanding at the end of the Payment Period will be automatically converted into shares of Common Stock of the Company having the same ratio to total outstanding Common Stock after such conversion as the then aggregate redemption prices of such Preferred Stock bears to the excess of consolidated assets over consolidated liabilities.

The Preferred Stock (other than the Company's 1951 Series Preferred Stock which has one vote per share) shall have from time to time through the Reference Date a sufficient number of votes per outstanding share so as together with the Common Stock issued to the Creditors, to aggregate at least 81%.

The Plan contains covenants which, among other matters, (i) require the Company to maintain specified levels of consolidated tangible net worth; (ii) forbid borrowed indebtedness secured by certain inventories; (iii) restrict the payment of cash dividends; and (iv) limit the extent to which the Company may acquire or dispose of specified assets.

The redemption requirements through 1986 are as follows:

	1985	1986
Series A Liquidating	$3,331	$ 6,663
Series B Liquidating	1,369	2,737
Series C Liquidating	300	600
Class A Cumulative		
Class B Cumulative		
1951 Series Cumulative	40	40
	$5,040	$10,040

CASH AND CERTIFICATES OF DEPOSIT

	1981	1980
Cash	$ 1,075	$ 6,055
Certificates of deposit	45,314	15,675
	$46,389	$21,730

RESTRICTED CASH

At August 2, 1980, pursuant to court orders or informal agreements, certain funds were restricted as to use. During fiscal 1981, these restricted funds were either expended by the Company in accordance with agreements or paid to the creditors in compliance with the Plan of Arrangement.

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NET ASSETS OF BALTIMORE REGION HELD FOR DISPOSITION

In July 1981, the Company decided to terminate its supermarket operations in its Baltimore Region. This involved the closing of 54 supermarkets, a distribution facility and regional offices.

The consolidated statements of operations for the three years presented contain the results of operations of the Baltimore Region stores to the termination date. The table below summarizes these operations.

	1981	1980	1979
Sales	$316,598	$346,060	$322,080
Costs and expenses:			
Cost of sales	245,080	266,816	248,748
Operating and administrative	79,052	82,094	80,212
Allocation of interest income, net	(1,229)	(397)	(132)
	322,903	348,513	328,828
Operating loss	$ (6,305)	$ (2,453)	$ (6,748)

Assets of the Baltimore Region are stated at estimated net realizable amounts and are reduced by related liabilities and a reserve for incurred and estimated future carrying costs and estimated losses which are expected to be incurred upon the sale of the regions' assets. These net assets which are included in the consolidated balance sheet, consist of the following:

	1981
Historical costs and deferred charges:	
Property and equipment, net	$29,775
Receivables and other, net	624
Disposition losses net of gains, and operations after termination date	9,195
	39,594
Estimated excess of recorded and future costs over proceeds through the end of the disposition program	(14,200)
Estimated net realizable value of assets held for disposition	25,394
Related liabilities:	
Mortgage loans payable	(585)
Capitalized lease obligations	(18,858)
	(19,443)
	$ 5,951

OTHER NET ASSETS HELD FOR DISPOSITION

In conjunction with the Chapter XI proceedings, the Company discontinued its J. M. Fields discount department store operations. The consolidated statements of operations in 1980 and 1979 disclose separately the earnings (loss) from the discontinued J. M. Fields operations.

The consolidated statement of operations in 1979 include the results of closed supermarket operations in New York, Connecticut, New Jersey, Pennsylvania and Tampa, Florida areas through the termination date. The table below presents a summary of that activity.

	1979
Sales	$467,339
Costs and expenses:	
Cost of sales	396,383
Provision for creditor's claims	10,746
Operating and administrative expenses	119,098
Allocated interest expense, net	4,730
	$530,957
Operating loss	$ (63,618)

The Company has been disposing of its interests in property and other assets related to the J. M. Fields operations and the closed supermarket operations noted above. The proceeds from the disposition of these assets are to be paid in accordance with the Plan of Arrangement. Net assets held for disposition, included in the consolidated balance sheets, consist of the following:

	1981	1980
Historical costs and deferred charges:		
Property and equipment, net	$16,980	$60,556
Receivables and other, net	9,340	15,224
Disposition losses net of gains, and operations after termination date	13,606	12,160
	39,926	87,940
Estimated excess of recorded and future costs over proceeds through the end of the disposition program	(26,787)	(31,887)
Estimated net realizable value of assets held for disposition	13,139	56,053
Related liabilities:		
Mortgage loans payable	(2,959)	(17,525)
Capitalized lease obligations	(6,865)	(26,410)
Deposits on future sales	(54)	(776)
	(9,878)	(44,711)
	$ 3,261	$11,342

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PROPERTY AND EQUIPMENT

	1981	1980
Land	$ 7,927	$ 7,775
Buildings	21,963	24,320
Capitalized lease assets	52,143	90,630
Leasehold improvements	14,637	20,209
Fixtures and equipment	51,467	58,884
Property and equipment—at cost	148,137	201,818
Less:		
Accumulated depreciation and amortization excluding capitalized lease assets	(43,179)	(55,670)
Accumulated amortization on capitalized lease assets	(27,914)	(45,126)
	$ 77,044	$101,022

OTHER ASSETS

	1981	1980
Collateral deposits	$ 6,177	$ 2,120
Trust fund under employment agreement with the Company's Chief Executive Officer	1,888	2,018
Washington Square Life Insurance Co.		4,143
Other miscellaneous	5,227	8,181
	$13,292	$16,462

Washington Square Life Insurance Company was sold during the current year at approximate book value.

NOTES PAYABLE

The Company is party to a credit arrangement which provides up to $8,000 in financing. The proceeds can be utilized for general financing as well as for the Company's Capital Improvements Program. The obligation bears interest at 2¼% above the prime commercial loan rate. The arrangement is renewable annually upon mutual agreement between the lender and the Company. The obligation is collateralized by a security interest in certain receivables, inventories and equipment approximating the amount of outstanding obligation.

ACCRUED SALARIES AND EXPENSES

	1981	1980
Salaries and related benefits	$14,280	$11,200
Self-insurance	9,723	3,306
Professional fees	1,808	4,503
Other	13,325	6,712
	$39,136	$25,721

LONG-TERM DEBT

	1981	1980
Plan of Arrangement debt, non-interest bearing, maturing through 1985	$49,485	$
Mortgage loans, 5.25% to 15.0% (weighted average of 8.3% in 1981 and 7.7% in 1980), maturing annually at varying amounts through 2001	14,340	13,254
Other	783	751
	64,608	14,005
Less current portion	15,312	5,282
	$49,296	$ 8,723

The aggregate annual maturities of long-term debt for the five years subsequent to August 1, 1981 are $15,312, $11,972, $12,066, $18,474 and $1,410. The mortgage notes are secured by substantially all owned land and buildings.

LEASES

At August 1, 1981, the Company is liable under terms of non-cancellable leases for the following minimum lease commitments:

	Capital leases	Operating leases
Year ending in:		
1982	$ 6,258	$ 4,051
1983	5,869	3,344
1984	5,251	2,974
1985	4,416	2,589
1986	3,727	1,877
Later years	21,183	17,891
Total minimum lease payments	46,704	$32,726
Less interest	16,148	
Present value of net minimum lease payments (including current installments of $3,679 net of accrued interest)	$30,556	

Rent expense under all operating leases having non-cancellable terms of more than one year is summarized as follows:

	1981	1980
Minimum rentals	$7,000	$4,681
Contingent rentals	640	748
	$7,640	$5,429

Equipment leases are for data processing equipment, transportation equipment and store fixtures and equipment and are primarily operating leases. Supermarket leases are generally capital leases with initial terms of up to 25 years usually with several 5 year renewal options.

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UNUSUAL ITEMS

	1981	1980	1979
Provision for losses on Baltimore Region	$(29,600)	$	$
Bankruptcy related items:			
Administration costs	(2,301)	(5,585)	(7,735)
Interest income	15,067	10,600	2,107
Reduction in (provision for) reserve for estimated losses from disposal of properties and termination expenses	5,100	6,000	(35,636)
Provision for self-insurance	(500)	(4,100)	(14,523)
Interest on tax refund		2,286	
Other		1,499	
	$(12,234)	$10,700	$(55,787)

The provision for losses on the Baltimore Region represent the estimated excess of recorded and future costs over proceeds through the end of the disposition program of $14,200 (see Note entitled "Net Assets of Baltimore Region Held for Disposition") and the estimated pension termination liability associated with the closing of the region of $15,400 (see Note entitled "Pension Plans").

Bankruptcy related administrative costs include principally professional fees, wages and other expenses incurred because of the Chapter XI proceedings or processing of creditors' claims. Interest income arises from the investment of restricted cash which was utilized to fund a portion of the Plan of Arrangement.

Management reviewed the estimated incurred and future carrying and selling costs, and estimated losses which are expected to be incurred upon the sale or liquidation of the remaining assets of the J. M. Fields operations and the supermarket operations in the New York, Connecticut, New Jersey, Pennsylvania and Tampa, Florida areas. As a result, it has become evident that the allowances as originally estimated exceed the amounts necessary to adequately provide for estimated losses. Accordingly, these allowances were reduced by approximately $5,100 in 1981 and $11,000 in 1980 of which $6,000 has been credited to unusual items and $2,550 (net of $2,450 income taxes) has been credited to discontinued operations.

Based, in part, on a review by an independent insurance broker, management has provided for substantial anticipated self-insurance losses. These provisions are presented as unusual items because such estimated amounts are required for claims incurred in years prior to 1979. Appropriate analyses of claims submitted, if made in prior years, are not available; and restatement would require individual examination of each claim (including thousands of closed claim files), and making numerous, often arbitrary, assumptions about what was known about each such claim in each fiscal period. Also some of the provision is for claims against the discontinued J. M. Fields operations. The consolidated financial statements for 1978 and prior years have not been restated because, on the basis of presently available data, management is unable to determine how the provision should be allocated among such prior years during which any such claim was outstanding.

INCOME TAXES

Income taxes in 1981 are not provided since the gain from debt restructuring is not taxable. The income tax expense for 1980 consists of:

	1980
State taxes payable	$ 89
Deferred tax benefit	(1,771)
Refund on taxes provided in prior years	(2,666)
Provision in lieu of income taxes	6,391
	$2,043

A reconciliation of the 1980 income tax expense with taxes computed at the statutory federal income tax rate of 46% is as follows:

	1980	
	%	Amount
Taxes computed at statutory rate	46.0	$6,084
State income taxes, net of federal tax effect	3.0	396
Federal income tax refunds	(20.2)	(2,666)
Reduction in deferred income taxes arising from utilization of net operating loss	(13.4)	(1,771)
	15.4	$2,043

The 1980 provision in lieu of income taxes represents the equivalent amount which would be required in the absence of the available operating loss carryforwards. The Company has recognized a tax benefit of $8,841 ($6,391 from continuing operations and $2,450 from discontinued operations) resulting from the utilization of net operating loss carryforwards as a reduction of taxable income. This benefit has been recorded as an extraordinary item.

The Company and its subsidiaries file a consolidated federal income tax return. At August 1, 1981, the Company and its subsidiaries has available to reduce future taxable income a net operating loss carryforward approximating $174,000 (subject to certain restrictive provisions of the Internal Revenue Code) which expires as follows: $9,000 in 1989; $12,000 in 1990; $4,000 in 1991; $126,000 in 1994; and $22,000 in 1996. In addition to the net operating loss carryforward, $100,000 has been expensed in the

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financial statements which is not currently deductible for tax purposes but is expected to be available to reduce future taxable income.

Investment tax credits of approximately $8,000 are available at August 1, 1981 (subject to certain restrictive provisions of the Internal Revenue Code) for use in federal income tax returns. These investment tax credits expire in varying amounts annually from 1989 through 1996.

The Internal Revenue Service has completed its examination of the Company's federal income tax returns through 1978 and has settled all disputed amounts. As a result, in 1980, $2,666 was recorded as a tax refund and $2,286 of interest income was recognized as unusual.

EARNINGS PER SHARE

Earnings per common and common equivalent share are computed by dividing net earnings by the weighted average number of common and common equivalent shares outstanding. Certain options granted under the Company's employee stock option plan are considered common stock equivalents.

Earnings per common share, fully diluted, are computed in the same manner as earnings per common and common equivalent share plus the weighted average effect of the assumed conversion of the Class A Cumulative Convertible Preferred Stock.

Supplementary earnings per share, assuming that the common stock issued per the Plan of Arrangement was outstanding at the beginning of the first year presented, would be $15.71, $2.36 and $(22.09) in 1981, 1980 and 1979 respectively.

PENSION PLANS

The Company and its subsidiaries maintain various noncontributory single-employer pension plans covering certain hourly and salaried employees. Most other full-time and certain part-time employees are covered by multi-employer plans jointly administered by unions and Company representatives. Accumulated plan benefit information, as estimated by consulting actuaries, and plan net assets for the single-employer plans are:

	January 1, 1980
Actuarial present value of accumulated plan benefits:	
Vested	$26,005
Nonvested	1,256
	$27,261
Net assets available for benefits	$15,571

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7%.

Pension expense for all pension plans for 1981, 1980 and 1979 was $21,869, $5,691 and $4,699 respectively. The 1981 amount includes approximately $15,400 in termination liability associated with the closing of the Company's Baltimore Region with payments of approximately $2,441 in 1982 through 1984 and $2,234 and $841 and 1985 and 1986, respectively.

STOCK OPTIONS

The Company has a stock option plan in which various officers and key employees may be granted nontransferable options at prices equal to the fair market value on the date of grant. The Plan provides that no option may be exercised prior to six months after the date of grant and that options are cumulatively exercisable thereafter in increments of 25% annually. The options expire ten years from the date of grant.

Transactions under the Plan for the three years ended August 1, 1981 follow:

	Stock Options		
	1981	1980	1979
Balance, beginning of year	132,500	105,000	
Granted:			
$3.375 to $4.44 per share	27,500	52,500	105,000
Exercised			
Cancelled	(12,500)	(25,000)	
Balance, end of year	147,500	132,500	105,000

At August 1, 1981 there were options then exercisable covering 87,500 shares at prices ranging from $3.375 to $4.44 per share compared to options exercisable covering 53,125 shares at prices ranging from $3.50 to $4.44 at August 2, 1980. The outstanding options at August 1, 1981 were held at prices on the date of grant ranging from $3.375 to $4.44. An additional 2,500 shares are available for granting of options.

In addition to the above Plan, on January 4, 1979, the Company granted its Chairman of the Board and Chief Executive Officer a nontransferable option to acquire up to 200,000 shares of its common stock at $2.00 per share exercisable on or before January 2, 1984 (fair value quotation of $588 at date of grant). The difference between the fair market value and the option price at date of grant was charged to operations. No part of this option has been exercised.

The Plan of Arrangement authorized 700,000 shares of the Company's 30,000,000 authorized shares to be utilized for the exercise of stock options. Included as part of the 700,000 shares are the 150,000 shares reserved under the Company's stock option plan and the 200,000 shares which were covered by the option which was granted to the Company's Chairman of the Board and Chief Executive Officer.

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CONTINGENCIES

In August, 1981, local unions affiliated with the United Food and Commercial Workers Union and the International Brotherhood of Teamsters instituted suit against Pantry Pride, Inc. in the United States District Court for Maryland requesting a preliminary injunction to compel arbitration of certain issues arising out of an alleged amendment to their respective collective bargaining agreements in July, 1981 and to require continuation of certain payments for health care coverages for union employees covered under such agreements pending the decision of the arbitrator. The complaint in this suit, entitled, *Local 692, United Food and Commercial Workers union, AFL-CIO, et al v. Pantry Pride, Inc.* asserts that the Company violated the terms of the purported amendments to the agreements by discontinuing its supermarket, warehouse and trucking operations in its Baltimore Region in mid-August, 1981. Based on testimony taken in the matter, the District Court held that the Company and unions had entered into a binding amendment to the respective collective bargaining agreements and directed the parties to forthwith submit to an arbitrator whether or not the agreement was breached; however, the Court denied the unions' request for a preliminary injunction. The Company has appealed this decision to the Fourth Circuit Court of Appeals.

The Company contributed to various Taft-Hartley multi-employer pension plans, jointly administered by industry and union representatives. As a result of store closings in the Philadelphia area, the Company's contributions to the plans declined materially. However, the Company does not believe that it "withdrew from such plans as a result of such closings, and, as to two of such plans the Pension Benefit Guaranty Corporation has taken the position that the contingent liability and bonding provisions of ERISA do not apply. The trustees of such plans, however, filed common law contract claims in the Chapter XI proceedings (not based upon any specified provision of ERISA) aggregating approximately $56,000. The Bankruptcy Court granted the Company's motions for summary judgment as to all three claims. Each of such claimants appealed to the District Court; one such claim for approximately $32,000 was settled by the Company for $150 after the District Court sustained the Bankruptcy Court's ruling. Appeals as to the other two claims aggregating approximately $24,000 are still pending. Counsel to the Company has advised that, based upon various factors, they believe that the Company would successfully sustain its position as to both claims upon appeal.

The Company, together with numerous other retail food companies, has been named as defendant in multiple civil actions by certain cattle producers and feeders alleging violations of the anti-trust laws in connection with the purchase and resale of beef. Management believes that no basis exists for the allegation and, after consultation with counsel, is of the opinion that these actions will not have a material adverse effect on the financial condition of the Company.

Two suits are pending in the Superior Court of the State of California, entitled respectively, *Stonewall Insurance Company v. Food Fair Stores, Inc., et al* and *Stonewall Insurance Company v. Food Fair, et al.* These suits seek the rescission, declaration of invalidity of, or the declaration of amounts due Pantry Pride, Inc., plus compensatory and punitive damages, under various policies of general liability and worker's compensation insurance which Stonewall had issued covering Pantry Pride, Inc. and several of its subsidiary and affiliated companies between 1972 and 1976. Pantry Pride, Inc. has filed a cross-complaint for claims paid by it for which it is entitled to be indemnified under various policies of insurance. As of August 1, 1981, the amount of claims paid by Pantry Pride, Inc. but not reimbursed by Stonewall aggregated approximately $9 million. Counsel to the Company has advised that upon the basis of discovery, there is no significant likelihood that Stonewall will be able to sustain its claim for punitive damages for intentional fraud.

ACCOUNTING CHANGES

In 1981, as a result of the Financial Accounting Standards Board issuance of Statement No. 43 "Accounting for Compensated Absences," the Company changed its method of accounting for vacation pay to comply with the statement. Prior to 1981, the Company had accrued vacation pay as earned for only a portion of its employees; as to all other employees vacation expense was recognized in the year paid. The effect of the change for 1981 was to decrease net earnings by $272 or $0.04 per share. The adjustment of $1,820 to apply retroactively the new method is included in the determination of earnings for 1981. It was not practicable to retroactively restate prior years.

In 1979, the Company changed certain methods of accounting in order to be consistent with industry practices as follows: the exclusion of certain warehousing costs in the determination of supermarket inventories; and the discontinuance of deferring payroll tax expense. These warehousing costs and payroll taxes are now charged to earnings as incurred. The effect of the changes for 1979 was $3,091 or $0.42 per share. The adjustment of $5,563 to apply the change retroactively, was included in the determination of the 1979 net loss.

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INTERNAL CONTROL

In 1979, material deficiencies in the Company's systems of internal accounting control and recordkeeping practices were found to exist and were further aggravated by the Company's pending Chapter XI proceedings, including ongoing negotiations with creditor groups, the termination of more than two-thirds of the Company's prior operations, significant turnover in management, financial and accounting personnel, relocation of corporate headquarters and corporate records, and changes in accounting systems. Because of these circumstances, it was not possible for the Company to reconstruct accounting records that would be required to provide assurances that its 1979 consolidated financial statements were prepared in accordance with generally accepted accounting principles. Accordingly, in their report, dated May 7, 1980, on an examination of the consolidated financial statements for the year ended July 28, 1979, the Company's independent certified public accountants reported that they were not able to complete tests of the accounting records and other auditing procedures that they considered necessary in order to comply with generally accepted auditing standards.

In 1979, the Company provided for amounts claimed by suppliers and lenders in excess of liability balances recorded in the Company's accounts. It is possible that a portion of this amount represents liabilities incurred prior to July 30, 1978. Amounts, if any, which pertain to prior periods cannot be reasonably estimated because of prior deficiencies in internal accounting controls and record keeping procedures relating to these amounts, and therefore the amount has been included in 1979.

Management has implemented a plan to strengthen and improve accounting systems, review and revise operating budgets on an ongoing basis, strengthen and improve financial policies and controls, improve data processing support, monitor and manage cost reduction programs, and improve record retention and storage. This plan covers the areas in which the Company and its independent certified public accountants had disclosed deficiencies in internal accounting control in 1979.

In addition to the plan, the Company reconstituted the Audit Committee of the Board of Directors, has assembled a new financial, accounting and management group, restructured its internal accounting organization, improved its management reporting system, and reestablished an internal audit function.

These steps were designed to provide reasonable assurance as to the reliability of the financial records and the protection of assets against loss from unauthorized use or disposition. Management believes that the Company's system of internal control now provides such reasonable assurance.

RELATED PARTY TRANSACTIONS

In 1979, the Company, with Court authorization, retained the firm of Price Waterhouse & Co., independent certified public accountants, to conduct an extensive investigation of related party transactions. Price Waterhouse & Co. issued a report on transactions with related parties, which the Board of Directors authorized the Audit Committee to evaluate and determine the disposition the Company should make of all matters involving related parties; of shareholder suits concerning all matters involving related parties; and, of shareholder suits concerning former management.

On August 4, 1980 the Company, with the approval of its Audit Committee, negotiated a settlement of various class action and derivative action lawsuits that had been consolidated as a multidistrict action. The parties to this settlement have 1) paid to the shareholders of the Company $2,500 in full settlement of the class action litigation on behalf of the Company, 2) voted all shares of common and preferred stock which they owned or over which they exercised control in favor of the corporate actions regarding the proposed Plan of Arrangement filed in Chapter XI proceedings and the election of those persons nominated by the Company as directors, and 3) did not oppose or delay the acceptance and confirmation of the Plan or the accomplishment of the corporate actions described above. These payments and actions were undertaken in settlement of most of the claims which were or could have been asserted against the Company concerning the subject matter of the Price Waterhouse & Co. report. The Audit Committee is also supervising a formal conflict of interest policy for the Company which includes periodic representation on such matters from key employees.

WORKING CAPITAL CHANGES

	1981	1980	1979
Cash and reimbursement due from restricted cash	$ 15,091	$ (5,905)	$ 18,599
Accounts receivable, net	(5,389)	3,692	(10,024)
Refundable income taxes	(6,875)	4,821	2,054
Inventories	(13,002)	(6,406)	(181,461)
Prepaid and other	(884)	1,983	(7,622)
Notes payable	(1,000)	15,000	21,685
Accounts payable	(1,448)	1,427	121,442
Accrued salaries and expenses	(13,415)	11,439	10,354
Current portions of long-term debt and capitalized lease obligations	(8,067)	811	129,887
(Decrease) increase	$(34,989)	$26,862	$104,914

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**BOARD OF DIRECTORS AND STOCKHOLDERS
PANTRY PRIDE, INC.
FORT LAUDERDALE, FLORIDA**

We have examined the consolidated balance sheets of Pantry Pride, Inc. (formerly Food Fair, Inc.) and its subsidiaries as of August 1, 1981 and August 2, 1980 and the related consolidated statements of operations, common stock and other elements of stockholders' equity and changes in financial position for each of the three years ended August 1, 1981. Except as described in the following paragraph, our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In 1979, material weaknesses in the Company's systems of internal control and deficiencies in record-keeping practices and other conditions described in the Note entitled "Internal Control" were such that, in a number of instances, Company employees, many of whom had recently assumed their positions, were unable to locate adequate documentation in support of, and provide satisfactory explanation for recorded transactions and balances. These conditions precluded us from obtaining sufficient evidential matter to satisfy ourselves on the extent to which 1979 operations reflected revenues and expenses which related to prior or future periods and as to whether there were incorrect classifications within the consolidated statement of operations and changes in financial position. The Company (i) had corrected deficiencies in internal control and record-keeping practices and (ii) has been able to locate adequate documentation in support of, and to provide satisfactory explanation for, transactions recorded in 1981 and 1980.

In our report dated October 24, 1980, we disclaimed an opinion on the 1980 and 1979 consolidated financial statements as to the effect, if any, of the outcome of material uncertainties and the Company's continuation as a going concern. The Company has satisfactorily resolved these material uncertainties as discussed in the Note entitled "Termination of Chapter XI Proceedings." Accordingly, our present opinion on the 1980 financial statements, as presented herein, is different from that expressed in our previous report.

In 1981, as described in the Note entitled "Accounting Changes," the Company adopted Financial Standards Board Statement No. 43 which effected the Company's method of recording employee vacation liability. In addition, in 1979 the Company adopted new methods of accounting, charging warehousing costs and payroll taxes to operations as incurred. We concur with these changes.

In 1979, material weaknesses in the Company's systems of internal control and deficiencies in the record-keeping practices prevented the Company, and therefore us, from obtaining sufficient evidence to ascertain the extent to which 1979 results of operations reflect incorrect classifications and include revenues and expenses which relate to prior or future periods, including the extent, if any, to which the adjustment for self-insurance, as described in the Note entitled "Unusual Items," and the provision for creditor's claims, as described in the Note entitled "Internal Control," applies to years prior to 1979.

As discussed in the Note entitled "Contingencies," the Company is a defendant in a law-suit which alleges breach of purported contracts with labor unions representing some of its Baltimore employees. The ultimate outcome of the litigation cannot presently be determined and no provision for any liability that may result has been made in the consolidated financial statements.

Because of the matter referred to in the second preceding paragraph we are unable to and do not express an opinion on the consolidated statement of operations and the consolidated statement of changes in financial position for the one year period ended July 29, 1979.

In our opinion, subject to the possible effects of such adjustments, if any, as might have been required had the outcome of the litigation referred to in the second preceding paragraph been known, the consolidated financial statements referred to above present fairly the financial position of Pantry Pride, Inc. and subsidiaries at August 1, 1981 and August 2, 1980 and the results of their operations and changes in their financial position for the two years ended August 1, 1981, in conformity with generally accepted accounting principles which, except for the change in accounting for employee vacation liability, with which we concur, have been applied on a consistent basis.

Miami, Florida
October 16, 1981

**Touche Ross & Co.
Certified Public Accountants**

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Pantry Pride, Inc. and Subsidiaries
Management's Report

The management of Pantry Pride, Inc. has prepared and is responsible for the accompanying consolidated financial statements. The statements were prepared in accordance with generally accepted accounting principles and, reflecting management's best judgment, present fairly the Company's financial position and results of operations.

The Company maintains an accounting system and related controls that we believe are sufficient to provide reasonable assurance that financial records are reliable for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance is based on the recognition that the cost of a system of internal control must be related to the benefits derived and that the balancing of those factors requires estimates and judgment.

The independent certified public accountants provide an objective, independent review as to management's discharge of its responsibilities insofar as they relate to the fairness of reported operating results and financial condition. They obtain and maintain an understanding of the Company's accounting controls, and conduct such tests and related procedures as they deem necessary to arrive at an opinion on the fairness of the consolidated financial statements.

The Audit Committee, comprised solely of outside directors, periodically meets with the independent certified public accountants, the internal auditors and representatives of management to discuss auditing and financial reporting matters. The independent certified public accountants have free access to meet with the Audit Committee, without management representatives present, to discuss the scope and results of their examination and their opinion on the adequacy of internal control and the quality of financial reporting.

October 16, 1981 **Pantry Pride, Inc.**

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Background
The Financial Accounting Standards Board issued Statement No. 33, Financial Reporting and Changing Prices, which provides methods for presenting information to evaluate the impact of inflation on the historical financial statements. These methods involve the use of numerous assumptions and estimates; therefore, the resulting measurements should be viewed in that context and not as precise indicators of the effects of inflation.

The historical cost financial statements, which do not fully reflect the effects of inflation, are prepared in accordance with generally accepted accounting principles. This method maximizes the reliability of financial reporting because it is objective and verifiable. In the accompanying schedules this historical cost information has been restated to show (1) the effects of general inflation (constant dollar) and, (2) the effects of changes in specific prices (current cost).

Constant dollar
In the constant dollar restatement, certain historical transactions are stated in dollars of equivalent purchasing power using the Consumer Price Index for all urban consumers. Property and equipment and inventories have been restated in constant dollars; and the related depreciation and amortization expense and change in inventory values are reflected in cost of sales and operating and administrative expenses. Depreciation and amortization expense is calculated using the constant dollar cost of property and equipment and applying the same methods and estimated lives used in preparing the historical financial statements.

Current cost
In the current cost restatement, certain historical transactions are adjusted to reflect changes in specific prices of the resources used in the Company's operations. Appropriate published indices have been selected to adjust the cost of the Company's property and equipment. Depreciation and amortization is calculated using the current cost of property and equipment and applying the same methods and estimated lives used in preparing the historical financial statements. The current cost valuation of inventories is calculated using the approximate purchase cost at year end. Cost of sales reflects the approximate cost at time of sale.

Summary
As indicated in the accompanying Consolidated Statement of Earnings (Loss) Adjusted for the Effects of Changing Prices, there is a significant impact on earnings with both the constant dollar and current cost methods. This difference is principally due to changes in cost of sales resulting from two factors. First, because the Company primarily uses the first-in, first-out method of inventory valuation, an amount is added to cost of sales representing inflationary increases in costs. Second, property and equipment which are reported in the primary financial statements at historical cost, would cost substantially more if purchased today. The depreciation and amortization charges in the adjusted statements are based on the higher cost for these assets.

The Company believes that this supplementary data should be viewed with caution since such data cannot objectively portray all financial and economic indicators. Therefore this information should not be considered as a precise indication of the impact of inflation upon the Company.

CONSOLIDATED STATEMENT OF EARNINGS (LOSS) ADJUSTED FOR THE EFFECTS OF CHANGING PRICES

	As Reported In Financial Statements	Adjusted For General Inflation	Adjusted For Changes In Current Costs
Net revenues	$1,234,449	$1,234,449	$1,234,449
Costs and expenses:			
Cost of sales	963,802	972,613	964,765
Operating and administrative expenses	269,861	279,992	281,693
Interest expense, net	(834)	(834)	(834)
	1,232,829	1,251,771	1,245,624
Earnings (loss) from continuing operations before unusual items	$ 1,620	$ (17,322)	$ (11,175)
Gain in purchasing power of net monetary liabilities		$ 30,880	

At August 1, 1981, the current cost of inventory was $65,887 and the current cost of property and equipment, net of accumulated depreciation was $164,450. Depreciation and amortization expense on a historical cost/constant dollar basis amounted to $24,383 in the aggregate and on a constant cost basis amounted to $26,253 in the aggregate.

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FIVE YEAR COMPARISON OF SELECTED FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

	FISCAL YEAR				
(dollars in thousands except per share data)	1981	1980	1979	1978	1977
Revenues	$1,234,449	$1,255,732	$1,880,236	$3,882,558	$3,608,384
Historical cost information adjusted to constant dollars					
Loss from continuing operations	(17,322)	(20,635)			
Loss from continuing operations per share	(2.27)	(2.80)			
Net assets at end of year	116,757	(41,419)			
Historical cost information adjusted to current dollars					
Loss from continuing operations	(11,175)	(12,926)			
Loss from continuing operations per share	(1.47)	(1.76)			
Excess of increase in general price level over increase in specific prices	5,622	8,040			
Net assets at end of year	123,178	(23,629)			
Gain in purchasing power of net monetary liabilities	30,880	66,135			
Cash dividends per common share				0.28	0.30
Market price per share at year end*	4.00	3.33	3.94	6.60	8.33
Average consumer price index	261.7	234.9	207.1	188.8	176.8

*The actual year end closing market prices were $4.00, $3.00, $3.13, $4.75, and $5.63 from 1981 through 1977, respectively.

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(dollars in thousands except per share data)	Quarter Ended November 22, 1980 (d)	February 14, 1981 (d)	May 9, 1981 (d)	August 1, 1981 (c)	Total 1981
Sales	$360,518	$296,204	$301,200	$267,341	$1,225,263
Gross profit	77,692	64,640	63,904	55,225	261,461
Earnings (loss) before unusual items income taxes and extraordinary item	(2,463)	3,887	4,149	(3,953)	1,620
Unusual items	4,515	2,951	3,224	(22,924)	(12,234)
Earnings (loss) before income taxes	2,052	6,838	7,373	(26,877)	(10,614)
Provision in lieu of income taxes	(1,005)	(3,273)	(3,613)	7,891	
Extraordinary items (a) & (b)	1,005	3,351	3,613	154,619	162,588
Accounting change	(1,820)				(1,820)
Net earnings	232	6,916	7,373	135,633	150,154
Earnings per share, primary	.03	.93	.99	16.56	19.72
Earnings per share, fully diluted	.03	.92	.99	13.84	18.75

(dollars in thousands except per share data)	Quarter Ended November 17, 1979	February 9, 1980	May 3, 1980	August 2, 1980	Total 1980 (e)
Sales	$331,475	$259,830	$259,253	$273,509	$1,124,067
Gross profit	67,743	51,211	54,250	57,156	230,679
Earnings before unusual items income taxes and extraordinary item	95	458	1,544	428	2,525
Unusual items	(58)	1,242	1,358	8,158	10,700
Earnings before income taxes	37	1,700	2,902	8,586	13,225
Provision in lieu of income taxes	(18)	(850)	(1,451)	276	(2,043)
Earnings from discontinued operations				2,550	2,550
Extraordinary item (b)	18	850	1,451	6,522	8,841
Net earnings	37	1,700	2,902	17,934	22,573
Earnings per share, primary		.23	.39	2.44	3.06

(a) Gain from restructure of debt
(b) Utilization of net operating loss carryforward
(c) The fourth quarter of 1981 includes the provision of $29,600 for loss on closing of the Baltimore Region
(d) Restated to reflect the retroactive effect of the accounting change in the method of accruing vacation pay
(e) 53 weeks

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Common Stock Price Data

Fiscal Year	Fiscal Quarter Ended	High	Low
1981	November 22, 1980	3¾	2¼
	February 14, 1981	5⅛	3¾
	May 9, 1981	5⅛	3¼
	August 1, 1981	6	3⅝
1980	November 17, 1979	3⅞	3
	February 9, 1980	4¾	2¾
	May 3, 1980	4¾	1⅞
	August 2, 1980	3¼	2
1979	November 18, 1978	5⅛	1
	February 10, 1979	3¼	1⅝
	May 5, 1979	4½	1¾
	July 28, 1979	4	2⅞

Stock Trading Market: Pacific Stock Exchange
Approximate Number of Stockholders at October 13, 1981: 12,226

No dividends have been declared or paid on the common stock with the respect to any of the periods set forth above.

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DIRECTORS

Robert B. Anderson
Business and Financial Consultant

Joseph L. Castle
Business and Financial Consultant

John M. Fox
Chairman, SCA Services, Inc.

Roger L. Galassini
President and Chief Operating Officer

Grant C. Gentry
Chairman and Chief Executive Officer

Jewel S. Lafontant
Senior Member, Lafontant, Wilkins and Jones, attorneys at law

James J. Needham
Business Consultant

Howard M. Packard
Retired Chairman and President, S. C Johnson & Son, Inc.

Duane Peters
Retired Executive Vice President. H. E. Butt Grocery Company

COMMITTEES OF THE BOARD

Executive Committee
Grant C. Gentry, Chairperson
John M. Fox
Roger L. Galassini
James J. Needham

Audit Committee
James J. Needham, Chairperson
Robert B. Anderson
Joseph L. Castle
John M. Fox
Jewel S. Lafontant

Compensation Committee
Jewel S. Lafontant, Chairperson
Robert B. Anderson
Joseph L. Castle
James J. Needham
Howard M. Packard

Finance Committee
Joseph L. Castle, Chairperson
Roger L. Galassini
Grant C. Gentry
Jewel S. Lafontant
Howard M. Packard

Nominating Committee
John M. Fox, Chairperson
Grant C. Gentry
Jewel S. Lafontant
Howard M. Packard

EXECUTIVE OFFICES
6500 North Andrews Ave.
Fort Lauderdale, Fla. 33309

AUDITORS
Touche Ross & Co. Miami, Fla.

REGISTRAR & STOCK TRANSFER AGENT
Registrar & Transfer Company
10 Commerce Drive
Cranford, N.J. 07016

PANTRY PRIDE, INC.
(Holding Company)

Corporate Officers

Grant C. Gentry
Chairman and Chief Executive Officer

Roger L. Galassini
President and Chief Operating Officer

Robert F. Longacre
Executive Vice President, Southern Operations

Darrell V. Stiffler, Jr.
Senior Vice President, Industrial Relations

Robert C. Strauss
Senior Vice President, Finance

Beryl J. Weinstein
Senior Vice President, Marketing

Neil Thall
Vice President, Management Information Systems

*Howard F. Gordon
Secretary and General Counsel

Michael Mandelblatt
Treasurer

Margaret M. Fulton
Assistant Secretary

Michael J. Sawyer
Assistant Secretary

PANTRY PRIDE ENTERPRISES, INC.
(Operating Subsidiary)

Officers

Includes all officers of Pantry Pride, Inc. and the following:

Thomas Ballezzi
Vice President, Asset Disposition

Duane E. Buck
Vice President, Manufacturing and President, Footwear Services, Inc.

Alex Cuesta, Jr.
Vice President, Loss Prevention

Allan A. Goldberg
Vice President, Insurance and Risk Management

Marvin Kushner
Vice President, Maintenance and Construction

John V. Marra
Vice President, Controller

Henry L. Morris
Vice President, Store Systems

Nicholas J. Romagnoli
Vice President, Real Estate

John W. Ruffin, Jr.
Vice President, General Merchandise

John G. Stebbins
Vice President, Advertising and Sales

David L. Chiras
Assistant Secretary

Edmond L. O'Neill
Assistant Secretary

William A. Rollins
Assistant Secretary

Regional Operating Presidents

Robert F. Longacre, Executive Vice President, Southern Operations
President, Jacksonville Region

John J. Coppinger, President, Miami Region

Leonard E. Slider, President, Virginia Region

*Mr. Gordon is a vice president, as well as secretary and general counsel, of Pantry Pride Enterprises, Inc.

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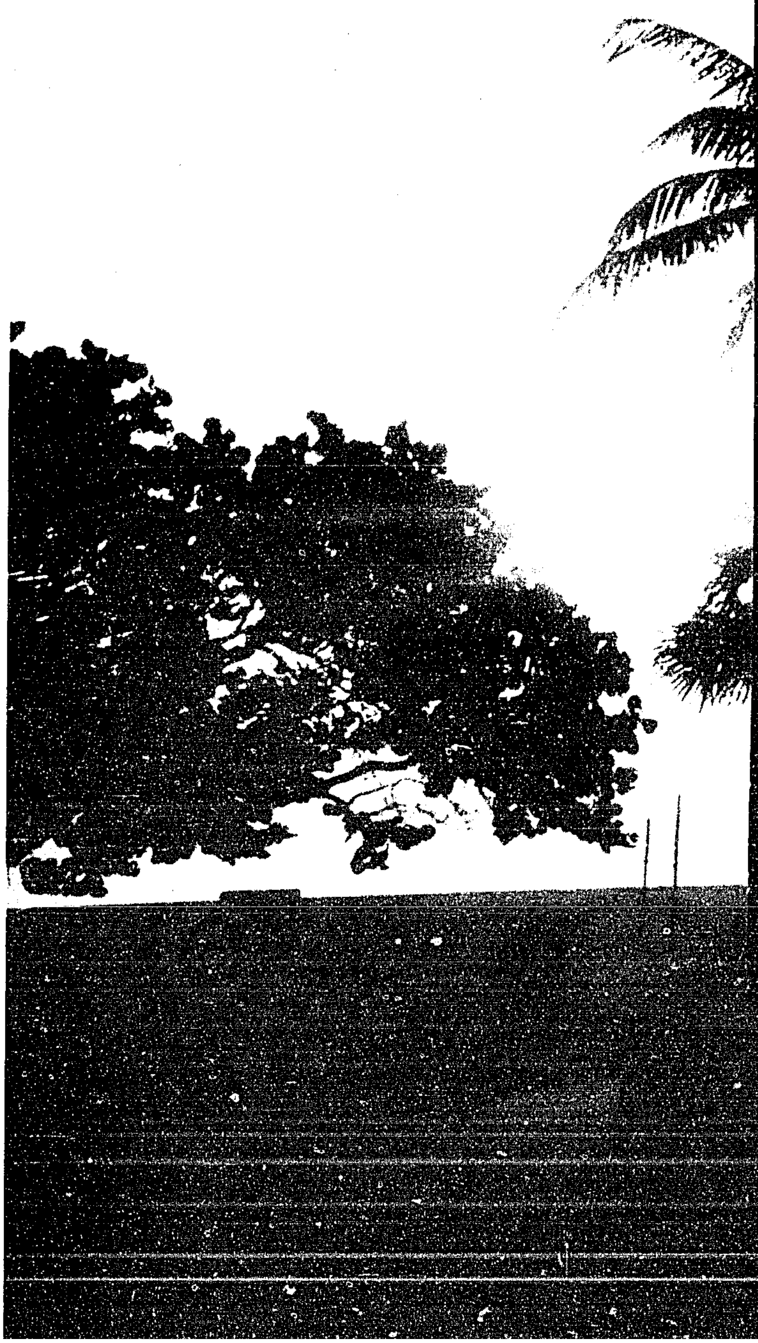

Pantry Pride

PANTRY PRIDE, INC.
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Fort Lauderdale, Fla. 33309

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